

**FOCUS****SEVERE ORDEAL**

Samsung Gets It amid Vulture Fund's Negative Campaigns

**MONEY****STOCK HOLDING COMPANY**

Korea Exchange Reorganized for Growth of KOSDAQ

**INDUSTRY****MARKET INSIGHT**

Unexpected Factors Driving Mobile Commerce Boom in Korea

# BUSINESSKOREA

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## Labor Reform

Top National Priority to Tackle

12,000 won



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## TO OUR READERS



### Lesson from Elliott Management's Intervention in Samsung C&T Merger

Elliott Management's attempt against the merger between Samsung C&T and Cheil Industries has offered much food for thought, although it failed in the end.

First of all, it was a reminder of the vulnerability of Korean conglomerates' governance structures that hinge on cross shareholding. Similar incidents can be repeated at any time if the conglomerates do not come up with fundamental solutions.

According to the Fair Trade Commission, the owners of the top 10 business groups in Korea are currently representing just 0.9 percent of their corporate entities, while the shareholding ratio goes up to 53.6 percent when the stocks owned by their subsidiaries, executive members, and the like are taken into account. This means that the owners are maintaining control by using the affiliates as a kind of leverage. In addition, shares owned by foreigners outnumbered those in favor of the largest shareholders in no less than 13 out of the 186 listed subsidiaries of the 30 largest conglomerates in the country.

Global hedge funds have targeted Korean companies based on these weak spots. The latter have lost trillions of won in national wealth through situations like Lone Star's acquisition of Korea Exchange Bank, Sovereign's attack on the SK Group, and that of Carl Icahn on KT&G.

Under the circumstances, experts point out the necessity of measures for the protection of management rights such as the "poison pill" idea and disproportionate voting rights. However, such measures could end up as special favors for conglomerates without efforts for better governance structures and shareholder-friendly policy. In the recent case, the Samsung Group raised its dividend payout ratio to 30 percent and set up the Governance Committee only after Elliott Management launched a strike.

Seen from a different point of view, the recent incident is a sort of precedent that shows Korean companies are now no longer pushovers for foreign speculators. Fully 69.53 percent of shareholders voted in favor of the merger, although a close game had been expected earlier. Still, it should not be forgotten that the result would have been impossible without domestic institutional and individual investors wary of an outflow of national wealth.

Self-protection against foreign speculative funds cannot rely on patriotism for good. Various solutions should be sought, by taking this opportunity, so that conglomerates' governance can be improved, and their management can have a higher level of stability.

Park Jung-hwan,  
Publisher & Editor-in-Chief



SEVERE ORDEAL

## Samsung Gets It amid Vulture Fund's Stepping Up Negative Campaigns

—  
by Marie Kim

Samsung was under attack by the U.S. activist hedge fund Elliott Management. The standoff pitted Samsung, a company that controls US\$270 billion in business, including some of the most pop-

ular smartphones in the world, against an activist investor who waged shakedown campaigns across the globe for pure profit. Based on Elliott's track record, experts worried that the company's actions



Paul Singer, CEO of Elliott Management, at the Annual Meeting 2013 of the World Economic Forum in Davos, Switzerland, January 23, 2013. (Photo by World Economic Forum via Wikimedia Commons)

would go beyond seeking simple profits to harm Korea's economy as a whole with its strong-arm financial tactics.

On the surface, Elliott's contention was that the merger of Cheil Industries with Samsung C&T undervalues Samsung C&T, and, thus, Elliott argues, it was "unfair." But at the heart of the matter, Elliott – the current third-largest shareholder of Samsung C&T with a 7.12 percent stake – was challenging the plan of the conglomerate's founding family to orchestrate a smooth transition of control of the Samsung Group to Lee Jae-yong, the son of the company founder Lee Kun-hee, a process started after the father suffered a heart attack last year. Lee Kun-hee still remains at Samsung Medical Center.

Analysts who are familiar with Elliott's past shareholder activism around the globe criticized the move by saying that Elliott was purposefully trying to create conflict over the leadership succession in the Samsung Group rather than just pursue short-term profits. This was evidenced by the fund's token investments in other Samsung subsidiaries.

### Preying on Companies

Elliott is known for taking positions in distressed companies, such as Corning and Enron, and then exploiting such positions for profit. When Elliot bought Owens Corning, it was financially distressed and being sued by workers who were injured by asbestos. The company filed for bankruptcy and agreed to pay compensation to the victims. Elliot bought Corning at next to nothing. Then, Elliot began a campaign attacking the workers, claiming that they were faking their claims.

According to Professor Shin Jang-sup of Singapore University, who has dug up previous merciless activism pursued by Elliot comments, "[Elliott made] legal, political, and PR attacks on the dying workers, which chiseled away the compensation expected to be paid by the asbestos companies, boosting the firms' net

worth. Elliott then flipped Corning, selling it for a near-billion-dollar profit.”

### Preying on Countries

But the attention of this financial organization may have been more than just a conglomerate-wide problem for Samsung. It could have possibly threatened Korea itself. It wouldn’t be the first time that the company has gone after a country – Elliott brought Argentina to its latest default, as it is currently embroiled in an activist battle there as well. In a 10-year-long campaign against the Argentinian government, Elliott has sought to enforce U.S. court judgments against the country for its 2001 default on US\$95 billion of debt. Elliott sued the Argentinian government for full repayment and won judgments worth US\$1.7 billion from a U.S. court, which Argentina refuses to pay.

Actually, Elliott is famous for taking advantage of the vulnerability of governments with distressed national economies. To achieve its target, Elliott has deployed various and sometimes unthinkable tactics, earning the nickname “vulture fund” in the financial community.

In the past, Elliott targeted distressed debt in countries where governments have been struggling to repay it. Elliott bought the defaulted debts at large discounts, then either sold them for a profit when the country’s circumstances improved or sued for full payment. This happened with Peru and Argentina.

In Peru, Elliott bought US\$20.7 million worth of defaulted loans made to Peru for a deeply discounted price of US\$11.4 million. Elliott then filed a lawsuit against the Peruvian government in a New York court for the original amount of the loan, plus interest. Elliott won a US\$58 million settlement and made US\$47 million in profits.

The Argentinian case revolves around a decade-long legal fight between the Argentine government and a group of hedge funds led by Elliott. Elliott purchased US\$630 million of bonds as the country was headed for default in 2001 for a reported US\$48 million, about 7 percent

of the value. It then demanded that Argentina pay US\$2.3 billion, including unpaid interest.

Elliott won a judgment from a New York court worth US\$1.6 billion, but the Argentinian government refused to pay. In 2012, Elliott made an unthinkable move. It confiscated an Argentine naval vessel, the Libertad, which was anchored in Ghana, and persuaded one of the country’s judges to hold the vessel in port until Elliott was paid the debt owed.

### Samsung Faced Same Tactics

Elliott is able to wage these sorts of agenda-based financial moves across the globe because Paul Singer, CEO of Elliott, is a former lawyer from Harvard Law School and knows the details of the U.S. legal system’s loopholes. He is also known to have strong connections with U.S political and legal elites.

In the battle with Samsung in Korea, Elliott started to ramp up pressure on the company by first filing a lawsuit. Elliott Management filed an injunction against Samsung C&T with the Seoul Central District Court, claiming that the stock valuation ratio of 1:0.35 applied to Cheil Industries and Samsung C&T for the merger would incur losses for Samsung C&T shareholders. It sought to prevent the proposed takeover from going ahead at the shareholders meeting.

In its second legal action against Samsung C&T, Elliott sought to bar Samsung C&T from selling its treasury shares to chemicals maker KCC Corp., a friendly party to Samsung C&T. Elliott claimed that this was a move to bolster its hand at the shareholders’ meeting and was also “unfair.”

Korean courts ruled against Elliott in the both cases, allowing the shareholder vote on the merger to proceed, and also declining to block Samsung C&T’s sale of treasury shares to KCC.

Elliott intensified the Samsung merger battle, even after losing twice. First, Elliott filed an appeal against a court ruling in favor of the proposed merger. Subsequently, Elliott acquired stakes in two

other companies in the group: 1 percent each of Samsung Fire & Marine Insurance and Samsung SDI. Both of these companies owned stakes in Samsung C&T. Samsung Fire & Marine owned 4.8 percent of the construction company, and Samsung SDI held 7.4 percent. With this purchase, Elliott tried to gain the standing to raise formal complaints with the two companies’ boards on how they voted on their shares. Elliott also called on other shareholders to vote against the merger deal at a meeting scheduled for July 17.

**69.53% of Samsung Shareholders Vote Yes**

The merger needed a two-thirds majority of voting shareholders to succeed. Elliott had a 7.12 percent stake in Samsung C&T, and foreign investors including Elliott held about another third. A key swing vote was Korea’s National Pension Service, which owns a 9.98 percent stake.

At a shareholders’ meeting on July 17, Samsung shareholders backed the proposed merger deal with Cheil Industries. A total of 69.53 percent of Samsung C&T shareholders approved the merger, which was an essential element of the reorganization plan of Samsung under the control of Lee Jae-yong. At the shareholder meeting, shareholders representing 84.73 percent of all shares cast votes, and 69.53 percent voted yes to the merger. Securing a 16.5 percent stake, Lee Jae-yong, vice chairman of Samsung Electronics, emerged as the largest shareholder of the merged entity. “This approval is huge for us. Samsung C&T won’t forget the support of retail investors, and as CEO, I promise that the company will improve shareholder value and their rights,” C&T President and Co-CEO Choi Chi-hun said.

In the meantime, some industry watchers said that Elliott could file an investor-state dispute (ISD) and file a lawsuit against the Korean court in the U.S. in the future if Elliott’s injunctions are not accepted in the local court. If Elliott’s purpose is to cause conflict in the Samsung Group, they are likely to prolong any legal battle. 



Korean government limited the emission reductions of the industry to within 12 percent compared with the BAU.

## PURCHASING CARBON CREDITS

# Korea to Reduce Greenhouse Gas Emissions 37% by 2030

by Jung Suk-yee

The government has finalized its 2030 target of reducing greenhouse gas emissions by 37 percent compared with Business As Usual (BAU). During a Cabinet meeting held on June 30, the government announced a plan to reduce greenhouse gas emissions by 37 percent from BAU levels by 2030. The reduction plan was submitted to United Nations Framework Convention on Climate Change (UNFCCC) secretariat on the same day.

Prime Minister Hwang Kyo-ahn said, "Considering the fact that South Korea has been playing a leading role in fighting climate change in the international community, we set a higher target than the previous four plans." However, the announcement came only 19 days after the government outlined four scenarios for the country's emissions target on June 11, and the fifth scenario was suddenly decided without accommodating speculation. Accordingly, there has been crit-

icism that the government handles this new climate change system with more haste than caution.

At the briefing at Sejong Government Complex on the same day, South Korean Environment Minister Yoon Seong-kyu said, "Once the new climate change system is decided in the U.N. Climate Change Conference being held in Paris at the end of this year, we will come up with detailed plans to reduce greenhouse gases emissions by sector and industry." Accordingly, the earlier plan in 2009 to cut greenhouse gas emissions by 30 percent in 2020 was abrogated.

The final plan submitted to the U.N. is to accomplish the target goal by introducing the third from the existing four scenarios to reduce 25.7 percent, but purchasing global carbon credits equivalent to the other 11.3 percent through the international market mechanism (IMM), which will be formed in the future. Ex-

perts pointed out that the emission rights will eventually be paid with taxpayer money, whether the government or businesses shoulder the burden.

Considering that the nation's economic structure is focused on the manufacturing industry, however, the government limited the emission reductions of the industry to within 12 percent compared with the BAU. Instead, the government plans to most reduce the power generation and transportation sectors, which emit a large amount of greenhouse gases. As the industrial circles are strongly resisting the plan, citing that it is physically impossible to reduce emissions by 12 percent, however, aftereffects are expected.

In the meantime, Korea's oil consumption per capita added up to 18.3 barrels last year, to rank fifth in the world. During the same period, Korea ranked sixth in oil refining capacity.

According to BP's Statistical Review of World Energy released on July 15, the daily average of the international oil consumption increased 0.9 percent year-on-year in 2014 to reach 92.09 million barrels.

The United States' and China's daily averages amounted to 19.04 million barrels and 11.06 million barrels, respectively. Korea ranked eighth with a daily average of 2.46 million barrels.

When it comes to the amount of consumption per capita based on the population estimated in July, Singapore took the top spot by recording 83.5 barrels. It was followed by Saudi Arabia (42.5 barrels), Canada (24.8 barrels), the United States (21.8 barrels), and Korea (18.3 barrels).

It is thought that the best part of the petroleum consumed in Korea was for industrial purposes. The high consumption per capita is attributable to its industrial structure in which petroleum products are exported based on the import of crude oil. The high level of consumption is also because of its particularly high dependence on oil as an energy source.

**EXPERIMENT FAIL**

## 'KF-X Project Could Come to a Dead End'

by Jung Suk-yee

The Korean Fighter Experimental (KF-X) project of the ROK Air Force could come to a deadlock without key technology transfers from the United States. However, the Defense Acquisition Program Administration (DAPA) is claiming that it is not going to happen, because it has the option of technology transfer from a third country.

"The softest spot of the KF-X project is the export licensing policy of the U.S.," said Choi Jong-kun, a political science and diplomacy professor at Yonsei University, on July 14, adding, "If Korea had to do it on its own due to a lack of technology transfer, the project would not be able to be completed as scheduled."

DAPA signed an offset agreement in Oct. last year with Lock-



An artist's depiction of the KF-X fighter when it is completed.

heed Martin to be supplied with key technology for the project. At present, the export licensing procedure is underway in the U.S. government. It is said that the U.S. government is unwilling to provide the four key techniques, including the active electronically scanned array (AESA) radar. DAPA said that it would meet the schedule by continuing to talk with the U.S. and cooperating with a third country just in case.

According to the professor, the U.S. might keep its key techniques to itself due to the presence of Indonesia, an Islamic country, in the project. "If Indonesia withdrew from the project in that state, problems could arise in the form of budgetary burdens and a reduction in the scale of the project," he continued. **BK**

**UPGRADING DEFENSE**

## Airbus Selected as Korea's Aerial Refueling Tanker



The Airbus D&S A330 MRTT.

The Korean Air Force selected Airbus Defense and Space's A330 Multi Role Tanker Transport (MRTT) as its first aerial refueling tanker.

On June 30, the 89th Defense Acquisition Program Executive Committee meeting chaired by Defense Minister Han Min-koo chose Europe's Airbus D&S A330 MRTT over Boeing's KC-46A and Israel Aerospace Industries' (IAI) B767 MMTT.

The price of the Airbus D&S A330 MRTT was at least 15 percent higher than that of the Boeing KC-46A, but its price went down due to the recent weak euro. Besides, the European aerospace and defense corporation offered outstanding prices, fighting for orders with Boeing.

The Airbus A330 MRTT is an aerial refueling tanker aircraft

based on the civilian Airbus A330. It is the largest among its competitors and is also designed as a dual-role air-to-air refueling and transport aircraft. The A330 MRTT has a maximum fuel capacity of 111 tons on the body and the wing. It can also carry up to 266 passengers and 37 tons of cargo.

The deal to procure four in-flight refueling tankers will be worth 1.4880 trillion won (US\$1.33 billion), including 1.2 trillion won (US\$1.07 billion) for the aircraft and 200 billion won (US\$179.16 million) for the construction of facilities such as hangars and runways. The Air Force initially planned to purchase air refueling tankers from 2017, but rescheduled it after 2018 as it failed to secure the budget as planned. The Air Force will purchase a total of four aerial refueling tankers – two in 2018 and another two in 2019. **BK**



The Guri World Design City Project includes this vision of Guri as the hub of the design industry in Asia.



Guri City Mayor Park Young-soon.

## DESIGN HUB QUEST

# Guri City Signs MOU for Design Hub with Domestic Investors

by Marie Kim

**G**uri City has signed an MOU with local construction companies that are participating in the Guri World Design City Project (GWDC) on July 9.

Park Young-soon, mayor of Guri City in Gyeonggi-do, hosted a ceremony for the development project at the Guri Art Hall on July 9. Nine investors attended the event.

In a bid to make Guri the hub of the design industry in Asia, Guri City has pursued the GWDC project for 8 years. For the successful implementation of the project, Guri City has recruited 7 construction companies – Hyundai Construction Inc., GS Construction Inc., POSCO A&C Inc., Hoban Construction, Seohui Construction Inc., Shindonga Inc., and Kunyoung Inc. – and Bukuk Securities Co. and Korea Asset Trust Co as strategic investors.

At the event, Guri City, the Guri Urban Corporation, and K&C Inc. signed an MOU with the above-mentioned 9 companies on the GWDC. In preparation for the end of regulatory restrictions associated with Greenbelt policy, government officials, companies, and investors all agreed to cooperate on conditions of

strategic investment and construction areas for investment.

Mayor Park Young-soon said, "The local economy has been stagnant lately, and the city has been in desperate search for a new engine of growth," adding, "The GWDC project represents a significant opportunity." Once launched, the GWDC will create as many as 11 million jobs in design, services, logistics, tourism, and other areas, and will accommodate at a minimum of 2000 global companies. "I'm certain that in the not-too-distant future, Guri City will become a world class design city," said Mayor Park. A CEO of a construction company attending the MOU signing ceremony added, "I feel proud to be a part of the government's vision for the creative economy, which will also represent the second miracle of the Han River."

On March 19, the Central City Planning Commission of the Ministry of Land, Infrastructure and Transportation (MOLIT) announced the "conditional" end of Green belt restrictions at the 7th deliberation. In response, from July to August, Guri City is planning on inducing foreign investment corporations to

establish their presence in the city, and it also set out to attract foreign capital of a certain amount. As the review of the Ministry of Government Administration and Home Affairs and Multilateral Agreement on Investment is approaching, these MOUs with construction companies and strategic investors will have a positive impact.

Currently, Guri City is taking necessary measures to end the Greenbelt restrictions. As a first step, the city is signing MOUs with such organizations and groups as the Korea Federation of Design Association, Urban Design Institute of Korea, and Seoul Institute of Arts. A spokesperson for Guri City said, "The City will make every effort towards that goal."

The GWDC development project that Guri City is promoting is a brand new type of design industry, as its focus is placed on the combination of features of hospitality and design industries and promote the Meeting, Incentives, Conventions, and Exhibitions (MICE) industry. Guri is intent on pioneering this new vision among many Asian countries.

Once this project is completed, Guri plans to host 500,000 medium and large-sized EXPOS with its focus on construction and interior design. The city expects that such events will bring at least 180 million foreign visitors every year with an economic impact of 7 trillion won (US\$6.2 billion). The project will help make Korea a center of hospitality and design. Overall, the project will drive the second miracle of the Han River. *BK*

## MANAGEMENT REWARDED

# Workplace Innovation Was the Secret

—  
by Marie Kim



CEO of KAMCO Hong Young-man.

The Ministry of Strategy and Finance gave Korea Asset Management Corporation (KAMCO) an A grade for its excellent management in 2014. At the end of 2013, net profits were posted as 51 billion won (US\$46 million), but by the end of 2014, net profits increased 1.7 times, marking 93.9 billion won (US\$81.2 million). KAMCO attributes this feat to innovation at the workplace that all staff collectively strove for.

The year 2014 marked one of the most dynamic years in the history of KAMCO. Of its 50 year establishment, the post-1997 IMF crisis and the 2008 global financial crisis were the two most important periods that cemented the image of KAMCO in the public mind. After the IMF crisis, KAMCO cleaned up non-performing loans (NPL) of troubled companies by providing debt consolidation funds. With the onset of the global financial crisis in 2008, KAMCO preemptively responded by issuing restructuring funds in an effort to save Korea from falling victim to a domino effect triggered by panic in the global stock market. The year 2014 presented another turning point for KAMCO, as it had to reposition itself from the emergency mode designed to cope with two big crises and move on to

redefine its new mission.

The inauguration of current President Hong Young-man coincided with this timing for change. President Hong proposed “communication, unity, ethics, and professionalism” as the key concepts that KAMCO has focused on under his leadership.

First, President Hong launched a contest titled “Restarting KAMCO Innovation Project” in Feb. 2014. Through this initiative, the president requested a submission of innovative ideas from staff members. The central idea behind the event was to encourage staff members to actively participate in the search for new directions and organize them into categories to build a foundation. In reality, this initiative also translated into improving procedural efficiency at the workplace.

As a result, KAMCO succeeded in improving its productivity and management efficiency. Compared to 2013, quarterly net profits increased 76 percent, generating 93.9 billion won (US\$811 million), up from 51 billion won. KAMCO established an emergency committee specifically focusing on planning debt reduction and regularly checking on the progresses on the “debt reduction” project. As a result, compared to the previous year, KAMCO reduced its debt-to-equity ratio by 53 percent, which is translated into 6.289 trillion won (US\$5.437 billion) in amount.

The Restarting KAMCO Innovation Project is comprised of four areas of innovation: business, manpower organization, management, and social responsibility.

For business innovation, KAMCO worked to enhance its new identity as a public asset management agency. KAMCO also expanded the scope of un-

derwriting public bonds. It also institutionalized the sales of public bonds.

In addition, KAMCO worked to effectively organize manpower. First, KAMCO expanded its scope for outsourcing tasks that have little relevance to the original purpose of the organization, such as collecting national taxes.

Via a vast amount of information about financial support, state asset management, and employment, KAMCO began to provide customized services for the public. As a first step, KAMCO set up an online site called “KAMCO Square.”

At the organizational level, KAMCO launched a committee called “DOT innovation”. Made with first letters from “Daily,” “On the Spot,” and “Together,” the acronym DOT is designed to foster open dialogue in the workplace. The committee proved to be an irreplaceable body, especially after the office moved to Busan. The committee offers staff a venue to raise day-to-day concerns and ways to help them adapt to new environments.

CEO Hong Young-man regularly sent out emails to all employees to communicate his business philosophy. This direct manner of communication is said to enhance unity and togetherness.

Noticeable innovation occurred in personnel management, too. Staff are introduced to a participatory personnel management culture. Open communication between management and labor helps narrow the differences on lowering the cost of fringe benefits. KAMCO also extended the scope of a flexible employment policy. For instance, the number of employees working flexible hours or working from home increased from 75 to 170.

Improving fairness and transparency in the recruiting process, KAMCO shifted its focus from titular qualifications to work experiences and competencies on the ground. As a result, KAMCO broadened its recruitment pool to include high school graduates (24 percent), women (48 percent), engineers (14 percent), and local candidates from Busan (44 percent). BK

## NUMBER ONE

### Incheon Free Economic Zone Gets Best FEZ Performance Evaluation

by Marie Kim



The newly-built Songdo International City in Incheon Free Economic Zone.

**T**he Incheon Free Economic Zone (IFEZ) has topped the national free economic zones (FEZ) in an evaluation overseen by the Ministry of Industry for its performance during 2015.

On the 24th, the Ministry of Commerce, Industry and Energy (MOCIE) launched the 79th committee for economic free zones and finalized the evaluation of free economic zones for 2015.

According to the MOCIE, the evaluation targeted FEZs in Incheon, Busan/Jiniae, Gwangyang Bay, Daegu, Yellow Sea, Saemangeum/Gunsan, and Chungbuk. Incheon was ranked first, followed by Gwangyang Bay. The Busan/Jiniae FEZ made third.

In the 5 areas of business, organizational management, development projects, investment, and residential environment, the IFEZ received the highest scores. Only in the area of business support did Gwangyang FEZ score highest.

According to the IFEZ, it raised US\$1.714 billion of foreign direct investment (FDI), despite unfavorable

economic conditions, due to the global economic downturn last year. This investment feat marks an 81.9 percent increase from 2013. The amount also represents 94 percent of total FDI in all FEZs in Korea. In addition, by creating another 136,000 jobs, the IFEZ contributed significantly to boosting the local economy.

In March of last year, as prestigious universities like George Mason University, University of Utah, and Ghent University opened in the IFEZ, it rose to prominence as a global education hub. In fact, the MOCIE previously pointed it out as an exemplary case for attracting investment.

The IFEZ is gaining momentum for more investments and development projects. In March of last year, the Ministry of Culture, Sports, and Tourism gave the green light to the development of a foreigner-only casino led by the Lippo and Caesar Consortium (LOCZ Korea), a venture between Chinese and American companies. In Nov., construction companies broke ground to build Paradise City. Hong Kong investment group CTF submitted a letter to express its intention to invest.

In Cheongna International City, construction companies started building the Hana Financial Town in Oct. last year. With no bidders to come forward, IFEZ decided to lead the project to build the landmark project, the City Tower.

Difficult issues are also being resolved one after another. Controversies around the construction of a Korean-American town are now resolved. Also, the 6.8 district development project, which had been on the verge of nullification, is now back on track.

Deputy Head Kim Jin-yong said, "IFEZ's continuous efforts and strong will to construct a world-class residential environment made it possible for IFEZ to rank No. 1 in the evaluation for performance," adding, "We will continue to work hard until we will join the world's top 3 FEZs."

The FEZ that is ranked number one in the evaluation is awarded 520 million won (US\$443,554). **BK**

## MOU SIGNED

### DGFEZ Authority Takes First Step to Attract Georgetown University to Daegu

by Cho Jin-young



Front row, from left to right: Sohn Kie-cheul, president of CIMI; Robert Clark, Dean for Research at Georgetown University Medical Center; Lee Han-gu, National Assembly; and Do Gun-woo, commissioner of DGFEZ Authority.

**F**ront row, from left to right: Sohn Kie-cheul, president of CIMI; Robert Clark, Dean for Research at Georgetown University Medical Center; Lee Han-gu, National Assembly; and Do Gun-woo, commissioner of DGFEZ Authority.

DGFEZ also signed a memorandum of understanding (MOU) at Georgetown University in Washington, D.C. on July 8 (local time) to establish a medical school in Daegu.

Attended by Lee Han-gu, member of the National Assembly, who has made efforts to ready systems and secure a budget in a bid to create MediCity Daegu and set up the Comprehensive and Integrative Medical Institute (CIMI) for the last 10 years, DGFEZ Authority Commissioner Do Gun-woo, Georgetown University Medical Center Dean Robert Clark, and CIMI President Sohn Kie-cheul signed the MOU to establish graduate courses, promote educational and research cooperation in the medical sector, push health care provider and patient exchange programs, and activate the medical care industry.

Founded in 1789, Georgetown University is one of the best universities in the world. It offers undergraduate courses in 16 sectors, including law and medicine, and has 1,300 full-time academic staff.

The university ranked 20th in the U.S. News annual ranking of America's top colleges in 2014.

CIMI is a foundation set up under the auspices of the government and Daegu City. It has recently completed the construction of an integrative medical center in Daemyeong-dong, Daegu, and is expanding interchange cooperation with Harvard University and Georgetown University, which globally stand out in the integrated medical sector.

Once the branch school of Georgetown University is opened in Suseong Medical District, which is located nearest to the center of the city among other free economic zones in the nation and has a favorable environment in which to settle, Daegu will have a strong advantage to attract students at home and abroad and a golden opportunity to improve the region's brand power as a MediCity.

Also, it will have a great ripple effect to make a medical breakthrough in the region due to the influx of the best medical technology and talent in the world.

The DGFEZ Authority is planning to visit the related government departments, including the Ministry of Trade, Industry and Energy and the Ministry of Education, as soon as possible to explain the plan to attract graduate schools, and make every effort to secure financial support from the government. **BK**

#### THEME PARK DEVELOPMENT

## BJFEZ Authority Actively Attracts Investment

by Cho Jin-young



Heo Seong-gon, commissioner of the Busan-Jiniae Free Economic Zone Authority.

**B**usan Jiniae Free Economic Zone Authority (BJFEZ Authority) Commissioner Heo Seong-gon is making every effort to directly attract investment in a bid to improve investment attraction performance and successfully push ahead with the Ungdong Global Theme Park Project.

In order to achieve tangible investments, Huh met officials from the nation's leading conglomerates, including Hanwha, Lotte, and Doosan, the Bank of China, and the European Chamber of Commerce in Korea (EUCCK) in Seoul for two days from June 16 to 17 to attract investment.

For stable promotion of the Ungdong Global Theme Park Project in Jiniae, he discussed various investment and cooperation plans such as the joint investment of the nation's large companies and foreign investors in a whole project, and partial investment of large companies in the hotel, shopping mall, water park, and resort sectors, where they have accumulated expertise through their businesses at home and abroad.

In the meeting, Huh stressed that the BJFEZ is in the center of Korea's major industries of shipbuilding and automobiles, and also of the world's three economic development axes, since it is less than three hours away from 60 cities with a population of more than 1 million. Also, he asked Chinese companies in the metropolitan area and the EUCCK's member companies to invest in the zone and the creation of Myeongji International City.

After being elected as the fifth BJFEZ Authority Commissioner on March 12, Huh has reformed the authority and worked intensively to make the BJFEZ a creative global economic zone with the 100-day goal of "the world's best distribution and business center realization."

In particular, the BJFEZ Authority will invite the EUCCK's CEO and executives to an investment promotion meeting, which is scheduled to be held at Haeundae Nurimaru from Sept. 18, to aggressively promote the strengths of the zone and firmly lay a foundation for investment. **BK**

#### STEADY SAILING

## New GFEZ Commissioner to Continue Existing Projects, Emphasize Tourism

by Cho Jin-young



The GFEZ Authority's new Commissioner, Kwon Oh-bong, at his inauguration ceremony on July 6.

**T**he Gwangyang Bay Area Free Economic Zone (GFEZ) Authority has appointed a new commissioner, Kwon Oh-bong, and held his inauguration ceremony on July 6.

Kwon Oh-bong said that he will continue the existing developmental plans of the zone without any disruptions.

While developing the strategies for domestic and foreign investments induction to the zone, he will also develop a systematic cooperative relationship with the companies investing in the zone, via regularly inspecting any problems businesses have, and developing solutions to the problems, he said.

He also said that he will develop the cultural tourism businesses of the zone. He plans to develop the cultural tourism business as an industry by developing networks among the regions of the zone, as well as developing world-class accommodation facilities.

Kwon Oh-bong was born in 1959 in Jeollanam-do, Jangheung, and educated at Korea University, receiving an economics undergraduate degree. He passed the administrative examination, and became a governmental official in 1983. Since then, he worked as the director of financial planning and budget analysis, vice-chief of the Defense Acquisition Program Administration, and economic lieutenant governor of Jeollanam-do. **BK**



Patrick Stringer, commissioner for Victoria to the Republic of Korea

CHEESE, WINE, GOOD EDUCATION

## Victoria, Korea Both Winning from KAFTA One Year In

by Matthew Weigand

Australia is becoming a more important trading partner for South Korea, even with the KAFTA between the two countries a little more than a year old. Business Korea was able to sit down with Patrick Stringer, Commissioner for Victoria to the Republic of Korea, and speak with him about the relationship between South Korea and Australia's most populous state. Patrick has served for 10 years representing Australian trade in Asia in Hanoi, Shanghai, and now Seoul. What follows are excerpts from the full interview.

### What is the primary goal of the Victorian Government Business Office in Korea?

Korea is our 5th largest trading partner, but if you ask the average Korean on the street "Do you do business with Australia?" most would say no. And, in fact, if you asked the same question in Melbourne you'd have the same response.

Victoria's economy is larger than Singapore, New Zealand, Ireland, or the Philippines. While we're only 3 percent of Australia's landmass, we are 22 percent of its GDP. Victoria established its Shanghai

trade office in 1905, so we have been in the business of international trade and representing our own interests for well over 100 years.

### What Korean goods are most popular in Victoria in particular or Australia in general, and vice versa?

For Korea, obviously Samsung, Hyundai, all those electronics products, and obviously automobiles do very well in Australia.

Conversely, Koreans probably eat a lot more Victorian food than they think. Victoria produces 80 percent of Australia's dairy. Meat is another big one. Victoria is also Australia's greatest exporter of processed food, like biscuits, spaghetti, or prepared foods of any kind that say made in Australia. Also, a lot of wine. It's one of the areas where we under-perform in the Korean market, unfortunately. Only 3 percent of imported wines in Korea come from Australia. It should be 10-12 percent.

And, of course, the elephant in the room is education, which is Victoria's largest international export. International students studying in Victoria is our larg-

est export.

### Do Australian and international students pay different rates for university?

No, full fee paying students pay the same no matter where they're from. But because of our tax system, many Australians don't pay full fees; they pay on a schedule of fees. And also Australians can get federal student loans.

One of the things Melbourne is known for is being ranked number two on the Best Student Cities put out by the QS Best Student Cities 2015 list. Paris, Melbourne and London are the top three. Melbourne is always in the upper echelon of student-friendly international university towns. We have the best tram network in the world, and it is even free for students in the Central Business District. We've got more than four universities there. Monash is the number one modern university in the world, meaning among universities established after World War II. It's usually ranked one or two. And the University of Melbourne is Australia's top-ranked university, which has produced a number of Nobel Laureates in several fields, and is consistently ranked among the top 30 universities in the world.

Last year, there was AUS\$1.86 billion of goods going to Victoria from South Korea, and only AUS\$1.1 billion of goods coming to Korea from Victoria. What do you think about this trade deficit on Victoria's part?

Not worried in the slightest. We take a long-term view. People will get very tied up in the numbers, but you can never see international trade as a zero sum game. For some period, Korea might have a favorable balance of trade with Victoria, and Victoria might have a favorable balance in another period. In the end the important thing is to have healthy, vibrant, multiple channels of trade between two countries where neither side is creating non-tariff barriers at the border. The demands of each economy will draw upon what it needs at the time.

# COVER STORY



## CONCESSION NEEDED

# Labor Market Reform Becoming More Controversial than Ever

by Jung Suk-yee

Labor market reform is emerging as a hot issue in Korea. At first, it was progressing based on a tripartite agreement between the government, employers, and the labor community. However, the tripartite talks hit against the wall, as worker representatives accused the other parties of trying to let go of existing employees and hire more temporary workers.

At present, the biggest controversy consists in the introduction of a wage peak without the consent of a trade union and general dismissal guidelines. Wage peaks were brought in after the IMF bailout in 1997, but only 9.9 percent of Korean companies adopted it until the end of last year. It recently came into the lime-light again as the mandatory retirement

age extension to 60 began to be pursued. The business community expressed concerns over an increase in labor costs to follow the retirement age extension, and the government came up with the wage peak as a solution for cost reduction and job creation.

A private company's rules of employment have to be modified based on the consent of the majority of its employees, or their trade union, for a wage peak to be adopted. However, the government is planning to move ahead with it based on the Supreme Court ruling that the rules of employment can be altered whenever doing so is socially reasonable. Meanwhile, employees are claiming that the wage peak serves the interests of no one but the

management, because most retire in their early 50s, and few can work beyond that time in the current employment system.

The general dismissal guideline issue has to do with labor market flexibility and Article 23 of the Labor Standards Act that stipulates an employer cannot dismiss an employee without good reason. The government's plan is to revise it and include a disciplinary dismissal and layoff into the scope of general dismissal. "Temporary workers are discriminated against when regular workers are over-protected, and employees with poorer performance should not get in the way of non-regular workers wishing to get a full-time job," it explained.

The labor community, however, pre-

dicts that the revision will result in a larger number of temporary workers, because it will facilitate employee dismissal based on the arbitrary decisions of employers. "According to Statistics Korea's official data, the number of temps has increased from 5.45 million to 6.07 million since 2006, when the bill for protecting them was enacted, and the ratio of their wages to full-time workers' wages has dropped from 62.8 percent to 55.8 percent during the same period," it claimed.

## Government's Reform Driving

The Korean government and the ruling Saenuri Party set labor reform as their top priority for the second half of this year.

In this context, they are going to be in pursuit of labor market flexibility, a wage peak, and the co-prosperity of large and small companies so as to prevent adverse factors such as the wide gap between the wages of regular and non-regular workers and a youth unemployment rate of over 10 percent from exacerbating declines in productivity, household income, domestic consumption and so on.

"We need to tackle economic inefficiency if we are to renovate the domestic economy, and this can't be done with labor reform," ruling party leader Kim Moo-sung said at the supreme council meeting held in his office in the National Assembly on July 20, adding, "During the rest of this year, I will concentrate my resources on the cause for the future of my country, even if those who are opposed to the labor market reform opt to turn their backs on me in the upcoming general and presidential elections."

According to the ruling party, polarization between employees is one of the most serious problems that Korean society is facing. It is planning to work harder to narrow the gaps between large and small companies, regular and temporary workers, the middle-aged and the young, males and females, the highly-educated



President Park Geun-hye met with the leadership of the ruling Saenuri party recently in the Presidential Office on July 16. They agreed to the urgency of the reform of the labor market.

and the rest.

The head of the ruling party recently met with President Park Geun-hye. They agreed to the urgency of the reform of the labor market. The President also asked him to strive for it so the government's reform drive in its third year can bear fruit.

## Political Pit Fight

However, the government and the ruling Saenuri Party are colliding with the opposition party again over labor reform. The ruling party strongly advocates the urgent necessity of reform, while the opposition party criticizes it as a measure to exacerbate generational conflicts.

At a supreme council meeting held at the National Assembly in the morning of July 22, ruling party leader Kim Moo-

sung mentioned that labor reform is an inevitable national task. "The purpose of labor reform is to get rid of unreasonable discrimination between permanent and temporary workers, seek better ways for the co-prosperity of large and small companies, and ensure that the young and the elderly flourish together," he said, adding, "It does not require the labor community's unilateral sacrifice at all, and I hope the opposition party will be more cooperative with regard to this issue."

Ruling party supreme council member Lee In-je continued, "We have looked forward to voluntary labor reform based on the tripartite committee, but 20 years of time has already passed in vain. I believe that now is the time for us to move ahead with it under the leadership of the government."



Korea's National Assembly building.

In response, the opposition party claimed that labor reform cannot be a fundamental solution to youth unemployment, and that it would deepen the bad blood between different generations. "President Park Geun-hye is maintaining that labor market restructuring is required for more jobs to be given to the young, but increasing the number of temps by means of reduced wages and more pink slips is not reform but retrogression," United Democratic Party of New Politics (UDPNP) leader Moon Jae-in remarked.

UDPNP supreme council member Jeon Byeong-heon pointed out that the government's plan concentrates on nothing but labor market flexibility, and that the responsibility for youth unemployment goes to no other than workers. "It is leading enterprises' reliance on temporary workers that should be corrected before anything else," he added.

## Worker Unrest

Amid such conflicts between ruling and opposition parties, the Federation of Korean Trade Unions (FKTU), the nation's largest trade union, announced on July 2 that 442,547 out of its 772,158 members participated in recent voting from June 15 to 30, and 397,453 of them voted for the strike.

The FKTU's resolution of the strike is the first time in 18 years. Still, the specific timing of the industrial action still remains up in the air. The federation is planning to begin the strike once the government pushes ahead with its labor mar-

ket reform plan for what the federation claims to be easier dismissal of workers and deprivation of their rights. 458,252 members are scheduled to take part in it at 1,403 places of business across the country.

The Korean Confederation of Trade Unions (KCTU) is also planning to go back on strike on July 15 in less than three months, which signals the possibility of a joint strike by the two organizations.

"The FKTU's resolution at this time is rooted in not only its objection to labor conditions, but also the lack of political trust, and this means things will not get better unless the government took meaningful action," said a labor relations expert.

## Hostile Negotiations

Korean automakers are suffering from lackluster sales and the weak yen. Nevertheless, labor unions are putting pressure on them, threatening to go on strike.

In May this year, the Hyundai Motor Company sold 54,990 and 334,309 cars inside and outside of Korea, respectively. The total went down by 6.4 percent from a year ago, while the domestic sales volume dropped by 8.2 percent and the overseas sales volume fell by 6.1 percent. During the same period, Kia Motors sold 40,010 cars in Korea and 202,044 cars abroad. The overseas sales volume declined by 7.0

percent and the total showed a 4.6 percent decrease.

Nonetheless, their union members are asking too much in their wage negotiations. The trade union of GM Korea has already decided to go on a strike, and that of Hyundai Motor Company recently declared an all-out strike in Ulsan City. GM Korea recorded 148.5 billion won (US\$127.6 million) in losses last year, but the trade union of the company is calling for a 500 percent bonus along with a 159,900 won (US\$127.39) increase in base pay. In Hyundai, the demands include the same base pay increment and a bonus of 2.2 trillion won (US\$1.89 billion), equivalent to 30 percent of the net profits that the company earned last year.

The trade union of Renault Samsung Motors is demanding the construction of another manufacturing factory in Busan City with the one already in operation not even being 100 percent utilized. In Ssangyong Motors, the employers and the employees are in conflict over issues such as higher severance pay, a 6.79 percent hike in base pay, and extension of the retirement age.

## 8% Increase in Minimum Wage

The minimum wage for next year, another key labor issue, also has been finally set at 6,030 won (US\$5.30), with both



Ssangyong Motors workers stand in formation, each holding a metal pipe, while they were on strike in 2009.



Renault Samsung Motors' labor union members shout slogans outside of the south gate of the company's Busan plant on September 12, 2012.



Labor representatives walk out of the talks at around 5:30 a.m. on July 8 in protest of a minimum wage proposal made by labor experts, but on the next day, the minimum wage for next year was finally set at 6,030 won (US\$5.30), with both management and labor circles unsatisfied.

management and labor circles unsatisfied.

Though the hike is the highest in eight years, labor representatives argued that it was still insufficient to improve low-wage workers' lives, while employers claimed it would worsen the difficulties of small and medium businesses.

Representatives from management, those from labor, and labor experts agreed to increase the minimum wage by 8.1 percent next year at the final talks of the Minimum Wage Council meeting that continued into the early morning of July 9 from the previous evening.

Labor representatives had walked out of negotiations on July 8 in protest of labor experts' earlier suggestion of the minimum wage hike. At a previous round of talks, labor experts proposed that the rate for the minimum wage hike be between 6.5 and 9.7 percent, driving the workers' representatives to boycott further negotiations.

The minimum wage guide came after a vote by the Minimum Wage Council. The Minimum Wage Act stipulates that at least one-third of representatives from labor unions and employers participate in a vote to decide the minimum wage. However, if one party refuses to attend the negotiations more than once, the vote can go ahead without the presence of the other party.

Out of 27 representatives, the remaining 18, including nine labor experts and seven employers, put the revised proposal to a vote in the morning of July 9 with-

out the presence of labor representatives, where 15 voted in favor, one against, and two abstained.

The hourly wage of 6,030 won translates to 48,240 won (US\$42.74) a day and 1.26 million won (US\$1,115.74) a month for those who work eight hours a day. The pay hike is expected to affect an estimated 3.42 million low-income workers, according to the Minimum Wage Council.

The 8.1 percent hike, however, raised immediate protests from both labor and management representatives. "We feel betrayed and disappointed by the decision, as we expected double-digit growth in the minimum wage as proposed by finance minister Choi Kyung-hwan," said the FKTU, the nation's largest trade union, said in a press release.

On the contrary, the Korea Employers Federation expressed complaints over the "drastic increase" in the minimum wage. "We regret the decision to drastically raise the minimum wage, which crushes small and medium-sized employers' efforts for survival amid worsening economic conditions," the organization said, pointing out that the 8.1 percent increase was much higher than the inflation rate of 0.5 percent.

There is, however, still room for a change in the rate, as the Ministry of Employment and Labor offers a 20-day period for both labor and management to express their objections before making the agreed minimum wage rate public for next year on Aug. 5.

## Eternal Tug-of-War

With the worker's unrest continuing, the Korea Chamber of Commerce & Industry (KCCI) conducted a survey on a voluntary agreement at this year's wage negotiations on July 8, targeting 300 human resources and labor relation managers working for firms with labor unions. 84 percent of the respondents said that they would be able to come to the voluntary agreement.

"Although both the Korean Confederation of Trade Unions (KCTU) and the Federation of Korean Trade Unions (FKTU) called for a strike against the government's labor market reform plan, the strike's impact is likely to be limited in individual companies, because their wage negotiations matter more than the strike for them, and any strike can be regarded as having political intentions," the KCCI explained. Some of the larger unions including that at Hyundai Motor Company refused to participate in the Korean Confederation of Trade Unions' strike in April, mentioning that it had nothing to do with the working conditions of union members.

Out of the companies that answered the survey, 81.7 percent picked wage increases and welfare expansion as the hottest issues for this year's talks. Another 32.7 percent mentioned issues such as ordinary wages, working hours, and retirement age. On average, employers suggested a 3.0 percent increase in total pay, while employees asked for a 5.8 percent increase. They answered they were likely to meet at 3.9 percent or so in an amicable settlement, regardless of the ongoing confrontation between employers' and employees' organizations. The Korea Employers Federation and the Federation of Korean Trade Unions recently suggested a 1.6 percent increase and a 7.8 percent increase, respectively.

56.3 percent of the respondents mentioned wage system reform, including the introduction of wage peaks, as the most important variable for the second quarter of this year. It was followed by labor mar-



A meeting between Hyundai Motor's management and the union in the Ulsan plant on August 6, 2013.

ket restructuring (33.3 percent).

## Ordinary Wage Settlements

In the meantime, the Ministry of Employment & Labor announced on July 6 that 4,615 out of 10,571 companies, each with 100 or more employees, have finished their wage negotiations for this year as of the end of last month. The ratio, 43.7 percent, is the highest since 2000, when it reached 47.5 percent. Also, it is equal to that of 1998 and about 2.5 times that of the same period of last year.

The 4,615 companies showed an increase in ordinary wages of 4.9 percent, 14.2 percentage points lower than a year ago. Last year's exceptionally high rate of

increase was because a lot of companies expanded the scope of ordinary wages according to the Supreme Court ruling. This year, those companies recorded an increase in total wages, which includes bonuses and the like, of 4.3 percent. The percentage was 4.7 percent in 2014.

A total of 819 out of them (17.7 percent) froze or cut their wages, whereas the ratio had been 9.2 percent a year ago. 48.0 percent of the 4,615 firms mentioned corporate and individual performances as the most important variable in the negotiations. It was followed by an increase in minimum wage (25.1 percent) and the amount of salaries paid by the other firms in the same industry (9.4 percent).

It seems that the negotiations have been completed with no increase in pay

in a relatively larger number of companies this year, because the economic recession is still going on, while the scope of ordinary wages is becoming clearer. In addition, employers and employees are trying to reduce uncertainties by wrapping up the talks early, with the wage peak becoming a hot issue ahead of the implementation of retirement at 60 scheduled for next year. For reference, the increase in ordinary wages had been 5.3 percent in 2011, 5.6 percent in 2012, and 4.4 percent in 2013.

The ratio of companies that have finished their negotiations amounted to 53.1 percent, 34 percentage points higher compared to a year earlier, when it comes to those without labor unions. The ratio stood at 17.9 percent for those with labor unions, 44.9 percent for those employing less than 300 people, and 31.5 percent for those with 1,000 or more employees.

## Emerging Wage Peak Issue

The wage peak issue also has been emerging as key to labor cost reduction. Korean companies have to bear more than 115 trillion won (US\$99 billion) in additional labor costs for five years in the case where compulsory retirement is raised to 60 without a wage peak. The annual average costs are equivalent to 2.6 times the extra costs attributable to the expansion of the scope of the ordinary wage.

The Korea Employers Federation released its estimates of the costs expected to follow compulsory retirement at 60, which cover a five-year period starting from 2017, at a panel discussion held on July 20 at the Press Center in Seoul.

By its calculation, the five-year extra costs reach 37.1168 trillion won (US\$32.0181 billion) for companies having 300 employees or more, where the extension of the retirement age is put into force in Jan. next year. During the same period, the additional labor costs amount to as much as 77.9734 trillion won (US\$67.2677 billion) for smaller firms, in spite of their one-year grace period, due to the large number of employees.



The Supreme Court ruled on December 18 2013 that the regular bonus is included in the ordinary wage, which is expected to have great repercussions in the auto industry.



Tapgol Park is a popular hangout for retired Korean men who like to play Baduk, or Go in English.

The federation's estimates are likely to become a reality, because the wage peak is spreading at a slow pace as of late. As of June 2014, only 23.2 percent of large enterprises adopted it, and 9.9 percent of total companies did. As the introduction of the wage peak is not mandatory, a number of employers and employees are predicted to clash with each other during their wage negotiations for this year.

According to the Korea Labor Institute, the annual salary of long-service employees amounted to 310 percent of that of new employees in Korea last year, whereas the percentages stood at 190 percent in Germany, 140 percent in France, 150 percent in Britain, and 240 percent in Japan.

However, the productivity of workers aged 55 or older was 60 percent of that of those aged 34 or less. Under the circumstances, employers are calling for not only a wage peak but also a comprehensive reform of wage systems themselves.

## Some Positive Signs

Since the tripartite meeting came to a deadlock in March this year, the three parties have moved in different directions. The government has pushed ahead with its reform plan on its own schedule, while the labor community has staged rallies to criticize this unilateral action. The business community, in the meantime, has kept a low profile, and experts

have brought up different opinions as to the process and result of the meeting.

Still, at least some positive signs have been found since then. The three parties have checked the reality of the labor market and the challenges it is facing, agreed on the fact that those challenges should be met without any delay for the Korean economy to become more sustainable, and reached agreements in at least some of the agenda items they have discussed. What is required now is a concession to get the talks back on track.

In the meantime, it is said that Kim Dae-hwan, former chairman of the Korea Tripartite Commission who resigned in April, will return soon.

A high-ranking official of the presidential office said on July 26, "The Federation of Korean Trade Unions (FKTU) is expected to participate in the Economic

and Social Development Commission – a consultative tripartite body comprising representatives of labor, management and the government – soon, starting meetings. The presidential office is not looking for another person, but strongly persuading Kim to return."

He also added, "We hope that Kim uses his experience and leadership as the head of the tripartite commission once again. Kim could declare that he would return to work as early as this week."

Kim submitted his resignation on April 9, taking full responsibility for the failed attempt to reach an agreement in labor reform at the meetings. However, President Park did not accept his resignation, even though his term ended at the end of June. Accordingly, his term has been automatically extended. The presidential office has not been looking for his successor, but has been trying to persuade Kim to return to work.

At the moment, the FKTU is considering whether or not to participate in the negotiations. If Kim returns to work, labor market reform will be accelerated.

In April, the Economic and Social Development Commission almost reached an agreement, except for some issues such as the salary peak system obligation and general dismissal guidelines. Accordingly, some of the ruling party say that the legislation of labor reform will also be accelerated if there is a settlement on major issues. **BK**



From left: Kim Young-bae, Park Yong-man, Kim Dong-man, Kim Dae-hwan (center), Choi Kyung-hwan, Lee Ki-kwon, and Yoon Sang-jik attended a joint meeting at the Press Center in Seoul on July 29.



Bank of Korea Governor Lee Ju-yeol announces the Bank's growth outlook for this year at the monthly monetary policy meeting at the bank's headquarters in Seoul on July 9.

## THIRD TIME CHARM

# Korean Central Bank Lowers Growth Forecast Again to 2.8 Percent

by Jung Suk-yee

Korea's central bank lowered its growth forecast for this year once again, citing contracted consumption due to the Middle East Respiratory Syndrome (MERS) outbreak, sagging exports, and drought. The downgrade is the third this year after those in January and April.

The Bank of Korea (BOK) on July 9 revised its estimate on the nation's gross domestic product growth down to 2.8 percent from its earlier forecast of 3.1 percent in April. Earlier, the central bank lowered its growth outlook of 3.4 percent down to 3.1 percent in the first month of the year.

Lee Ju-yeol, governor of the central bank, attributed the downward revision to weaker-than-expected growth in the second quarter. The central bank had estimated first-half growth at 2.4 percent. But exports decreased 1 percent year-on-year in the Jan.-June period due to unfavorable foreign exchange circumstances and weak global demand. Also, MERS fears hit con-

sumer sentiment hard, to drop local demand.

In a separate press conference, deputy governor of the bank Suh Young-kyung said that the MERS outbreak pared 0.3 percentage points off economic growth, while the severe drought slashed 0.1 percentage points off the rate.

The central bank, however, drew a rosy picture of the second half, expecting the economy to grow 3.1 percent, with consumer spending gaining 2 percent and exports jumping to 3.9 percent.

Finance Minister Choi Kyung-hwan also said at the briefing on the results of the Trade and Investment Promotion Meeting on the same day, "The nation could achieve 3 percent level growth this year when the revised supplementary is executed in a timely manner and the measures for reviving the nation's economy create effects."

In the meantime, the BOK left its consumer price growth estimate for the

year unchanged at 0.9 percent. In April, the central bank had sharply lowered the projection from 1.9 to 0.9 percent.

Amid the lowered growth forecast revision, the record-low basic interest was kept in July following the previous month.

The Bank of Korea (BOK) announced on July 9 that it had frozen the key interest rate at 1.5 percent for this month, as it was in June when the central bank cut it to a record low.

The base rate had been cut four times to see a total of a 1 percentage point decrease since August last year.

The decision was known to have come from the judgment that it is necessary to watch the effects of the base rate cut made last month to fend off demand contractions from the Middle East Respiratory Syndrome (MERS) outbreak and those of the strengthened fiscal supports of 22 trillion won (US\$19.5 billion), including a revised supplementary budget of 11.8 trillion won (US\$10.4 billion).

Another reason for the decision was that the U.S. Fed would raise the base rate within this year, amid the lowest level resulting from the four cuts since the second half of last year.

Uncertainties in the global financial market are also increasing with the Greek crisis and China stock market plunge. Rapidly-increasing household debt is also said to have contributed to such a decision.

Even though there has been no serious out-flow of foreign money in spite of the base rate cuts, a U.S. base rate increase could flare up the variability and anxiety of the international financial market centered on emerging economies.

Household debt, which has already exceeded 1.100 quadrillion won (US\$974 billion), are highly likely to be a detonator of the crisis when the shock of the U.S. interest rate hike hits the local financial market. Household debt has been showing a rapid increase of 7 to 8 billion won (US\$6 to \$7 million) per month due to the deregulations of mortgage loans and cuts of the base rate. 

**MAINTAINING RATING**

## Fitch Maintains Korea's Credit Rating at AA-

by Cho Jin-young

**F**itch has maintained Korea's credit rating at AA- for the 34th consecutive month, while maintaining a credit outlook of stable. It mentioned that Korea has solid macroeconomic conditions, along with a high level of fiscal soundness.

According to the credit rating agency, Korea's economic growth is expected to show some recovery from next year. It suggested 2.9 percent for this year, 3.4 percent for 2016, and 3.6 percent for 2017. It added that the Korean government's revised supplementary budget and expansionary fiscal policy will have a positive effect on consumer sentiment. "Korea's government debt level is lower than the average of those of AA countries such as Britain, Hong Kong, and France, and the government is striving to reduce public debt while the consolidated central government



surplus is going on," it explained, continuing, "Korea appears to be less vulnerable than most AA countries to external risks such as an interest rate hike in the United States, because it has large amounts of current account surplus, foreign exchange reserves, and international assets."

Still, it pointed out that the geopolitical risks associated with North Korea and a GDP lower than the average of other AA countries' could inhibit a rise in credit rating. It also mentioned that the ongoing rapid increase in household liabilities could make things worse in the event of a negative impact on the economy. "We can adjust Korea's credit rating upward in the future on the condition that public debt is reduced at an accelerated pace and the GDP per capita continues to increase," it said. [BK](#)

**RISK INCREASING**

## Korea's CDS Premium at 5-month High

**E**merging economies' default risks are skyrocketing due to concerns over the Grexit and plummeting stock prices in China.

According to market research firm Markit, the CDS premium for Korea's 5-year foreign exchange stabilization bond reached 59.37 basis points on July 8. The CDS premium was as high as 60.41 basis points on Feb. 20 this year, but dropped to 46 basis points or so in May, the lowest level since the 45.0 basis points recorded on Dec. 31, 2007.

However, it began to soar last month due to concerns about the Greek default and Grexit. On July 7, the concerns were com-



pounded by the plunge in the Chinese stock market, and the CDS premium rose by no less than 4.55 basis points, coming very close to 60. The premium increased by approximately 18 percent from 50.29 basis points compared to a month ago.

Similar things are happening in Greece and China, as easily predicted. Greece's CDS premium soared by 63 percent in a single day to 13,462.43 basis points, while China's rose by 7.63 to 104.59. China recorded a 16.8 percent increase in a month, followed by the Philippines (7.94 percent), Poland (3.82 percent), Indonesia (3.81 percent), Portugal (0.67 percent), Vietnam (0.28 percent), and Spain (0.23 percent). [BK](#)

## DECREASING EXPORTS

# Exports Decrease 15% Due to Overseas Production

— Jung Suk-yee



Industry watchers say that exports have decreased due to overseas manufacturing, which could have an adverse effect on overall exports.

According to the “Processing and Intermediary Trades’ Scale Estimation and Its Implications” released by Hyundai Research Institute (HRI) on July 12, exports through overseas local production accounted for 17.4 percent in overall exports in 2012, and the figure decreased to about 15 percent last year.

Exports through overseas local production are composed of processing trade and intermediary trade. The amount of processing trade exports increased to US\$94.6 billion (106.91 trillion won) in 2012, but decreased to US\$82 billion (92.67 trillion won) in 2014. The net amount of intermediary trade export increased from US\$10.1 billion (11.41 trillion won) in 2012 to US\$14.6 billion (16.5 trillion won) in 2013, but slightly dropped to US\$13.7 billion (15.48 trillion won) last year.

The decrease in overseas local production exports is largely due to China’s recent policy to limit processing trade within the country, on which domestic companies have a high level of dependence. Last year, China accounted for 67.2 percent in domestic companies’ processing trade.

Another factor is that each country’s policy is favorable to its own companies,

which worsens the business condition of foreign companies. The change in the environment can reduce foreign direct investment of companies. The manufacturing industry’s foreign direct investment year-on-year decreased by 13.2 percent in 2012, went up 9.7 percent in 2013, and dropped by 21.6 percent in 2014 again.

In fact, the increase in the parts and materials sector stood at 3.8 percent in 2013 and 4.9 percent in 2014. However, the figure increased by only 2.8 percent

from a year ago in the first quarter this year. A senior research analyst said, “We should vitalize the processing and intermediary trades by expanding investment in core technology development and the new growth manufacturing industry at home, and also by establishing a division system to secure materials and reduce production costs abroad. Also, we need to lower overseas production dependence on China and seek out new overseas production bases.” **BK**

## TECH OUTFLOW

# Korea’s Mobile Phone Exports Showing Solid Growth

— by Cho Jin-young



Smartphones being shipped out on an Asiana Cargo aircraft.

This year, the global ICT market is expected to record negative growth. Last month, total exports from Korea decreased by 1.8 percent. Nevertheless, mobile phone exports from the country continued to record a double-digit

growth both in May and June this year. The Galaxy S6 and the G4, the flagship smartphones of Samsung Electronics and LG Electronics, led the growth.

According to the Ministry of Science, ICT and Future Planning, smartphone exports from Korea added up to US\$960 million last month, showing a 31.9 percent increase compared to a year ago. Mobile phone exports increased by 19.4 percent year-on-year to US\$22.5 billion as well, while overall ICT sector exports edged down by 0.2 percent to US\$83.59 billion between the first half of 2014 and the first half of 2015. “The mobile phone exports for the first quarter of this year were less than expected, but, fortunately, the release of the flagship models, including the Galaxy S6 and the G4 led to a turnaround in the following quarter,” the ministry explained.

In the meantime, total ICT sector exports from Korea edged up by just 0.2 percent year-on-year in June to reach US\$13.95 billion. **BK**

## DECREASING EXPORTS

# Tariff Barriers to be Lifted on 200 IT Products

— by Jung Suk-yee

Tariff barriers will be dropped on



most information technology (IT) products, including semiconductors and computers, in the future. South Korea,

which has the best competitiveness in the semiconductor and cellphone sector in the world, expects to see positive effects, including export expansion, from tariff elimination.

According to a report from the Financial Times (FT) on July 19 (local time), 54 negotiators of the WTO Information Technology Agreement (ITA) tentatively agreed to remove tariffs on about 200 high-tech products on July 18. The 80 governments, including the U.S., China and the E.U., are expected to sign the agreement by July 24.

Once the negotiation is concluded, tariffs on IT products that make up about US\$1 trillion (1.155 quadrillion won) around the world will be eliminated. Currently, global trade in IT products is

worth about US\$4 trillion (4.620 quadrillion won) annually, and the update would see tariffs lifted for a quarter of the goods. The number of the items will be also increased from the current 140 to 200.

Originally signed in 1977, the ITA is a plurilateral trade agreement that requires participants to eliminate their tariffs on a specific list of IT products. Each country has insisted on the complete elimination of tariffs by major trading partners. In particular, the U.S. and Japan, which seek export expansion of their IT products, are claiming that game consoles, GPS navigation systems, and medical devices should be also considered IT products to remove their tariffs. In contrast, the E.U., which has relatively low competitiveness in the

IT industry, is taking a negative attitude on the issue. South Korea had objected to the deal struck by the U.S. and China, because it did not remove tariffs on its major export products such as LCD display panels and lithium ion batteries.

Once the ITA is signed, South Korea, which has an unequaled competitiveness in the IT sector including semiconductors, wireless communication devices, and electronic appliance equipment, is expected to see an expansion of export markets as part of its positive effects. However, the country has already received customs-free benefits in major markets after it concluded the FTA with the U.S. and the E.U. With the ITA deal, fierce competition with Chinese and Japanese companies is inevitable now. **BK**

## OUTGOING WELL

### Trade Surplus in Materials and Parts Reach Record Highs

by Jung Suk-yee



**S**outh Korea's exports and the trade surplus of industrial materials and parts reached a record high in the first half this year.

According to the Ministry of Trade, Industry and Energy on July 8, the exports of industrial materials and parts amounted to US\$134.3 billion (152.66 trillion won), up 0.5 percent from the same period last year. The country's trade surplus in the industrial materials and parts sector reached US\$53.3 billion (60.59 trillion won), as imports slipped 2.6 percent year-on-year to US\$80.9 billion (91.96 trillion won). The

figures are a record high in both exports and trade surplus. Accordingly, the exports of the sector has gradually increased from 2011, accounting for 50 percent of the country's overall exports in the first half this year.

The increase in exports of industrial materials and parts is especially meaningful, as it comes amid a drop in the country's overall exports, as well as a global economic downturn, low global oil prices, and the weak yen.

In the second half of the year, the country is expected to face many external uncertainties such as a cut in China's imports, reconsideration of the U.S. for quantitative easing, and economic and political instability in Europe. However, the country's trade surplus in the materials and parts sector will easily breach the US\$100-billion (113.67 trillion won) mark for the second consecutive year.

The exports of parts grew 4.7 percent, while the exports of materials dropped 8.2 percent.

For exports by item, the figure of non-metallic minerals increased by 29 percent to US\$1.1 billion (1.25 trillion won), computer and office machine parts by 28.2 percent to US\$2.6 billion (2.96 trillion won), electronic components by 8 percent

to US\$47.1 billion (53.54 trillion won), and electric machine components by 6.6 percent to US\$12.3 billion (13.98 trillion won). However, the exports of compound and chemical products decreased by 12.9 percent to US\$19.7 billion (22.39 trillion won), textile products by 11.7 percent to US\$2.2 billion (2.5 trillion won), rubber and plastic products by 7.5 percent to US\$4.5 billion (5.12 trillion won), and precision machinery components by 4.9 percent to US\$2.7 billion (3.07 trillion won). These sectors are struggling due to oversupply in the global market and the lower prices of raw materials.

For imports by item, the figures for electronic components increased by 5.3 percent to US\$24.4 billion (27.74 trillion won), precision machinery components by 2.8 percent to US\$2.9 billion (3.3 trillion won), and electric machine components by 1.2 percent to US\$7.2 billion (8.18 trillion won). However, the figure of rubber and plastic products decreased by 11 percent to US\$2 billion (2.27 trillion won), primary metals by 10.8 percent to US\$11.9 billion (13.53 trillion won), fabricated metal 10.6 percent to US\$1.1 billion (1.25 trillion won), and nonmetallic minerals by 9.5 percent to US\$1.6 billion (1.82 trillion won), all showing a big drop. **BK**

## PLACING ASIAN INFRASTRUCTURE

# AIIB Launches for Great Infrastructure Business Opportunities

by Jung Suk-yee

The establishment of the Asian Infrastructure Investment Bank (AIIB) is expected to be a boon for inter-Korean economic cooperation, the recovery of the global economy, and the co-prosperity of Asian economies. “The AIIB will be a platform on which Korean builders and engineering companies take a leading role in infrastructure projects in Asia worth US\$8 trillion in total, which will result in the revitalization of the Korean economy,” the Korea International Trade Association explained.

The bank is predicted to be of great help for the economic initiatives in Northeast Asia including the Rajin-Khasan Project as well because China, South Korea and Russia participate in the bank as its founding members. This means the AIIB’s pilot projects can include the construction of an international port in the border area of North Korea, Russia and China.

The construction sector anticipates that it will be able to be-



come a foothold for business in Asian infrastructure markets. “Demands for roads, railways and airports are high in the continent but most of the overseas projects led by Korean builders have been based on private investment due to the lack of government’s resources,” said the International Contractors Association of Korea (ICAK), adding, “However, the bank will make reliable financial resources for infrastructure projects in Asia and Korean companies will be able to benefit from it.” Daewoo Engineering & Construction echoed by saying it was mulling over investment in less-developed Asian countries with stable political conditions and room for development as tourist attractions.

According to the ICAK, the amount of the international contracts won by Korean construction firms increased from US\$40.4377 trillion to over US\$275 trillion between 2006 and 2013. Although it slipped to US\$159.1552 trillion in 2014, the amount has already exceeded US\$130 trillion this year. 

## BUILDING UP ASIA

# US\$2 Billion Fund Raised for Infrastructure Investment in Asia

by Jung Suk-yee

The Financial Services Commission (FSC) announced on July 16 that Korean commercial banks will raise a debt fund of US\$2 billion in order to assist in Korean construction firms’ overseas SOC projects, just in time to coincide with the establishment of the Asian Infrastructure Investment Bank (AIIB).

SOC project opportunities are increasing in Asia these days based on the launch of the AIIB and European banks’ withdrawal from Asia due to the recent European fiscal crisis. Japanese banks have succeeded in making the most of the chances, but Korean financial companies have been rather slow in doing so. Under the circumstances, the FSC is planning to raise the fund within a year with six or seven banks such as KB Kookmin, Shinhan, and Woori.

An average of 300 billion won (US\$262 million) is scheduled



to be invested by each participating bank in the form of a syndicated loan, and the Korea Trade Insurance Corporation stands surety for 95 percent of the amount. “Korea owns 3.81 percent of shares in the AIIB, which is the fifth-highest, and this means that Korean builders and financial companies are expected to have great influence on major SOC projects in Asia,” the FSC explained, adding, “We hope that this fund will be a boon to the expansion of their projects abroad.”

The commission is going to relax solvency margin ratio regulations regarding social infrastructure financing, too. The idea is to attract insurer investment in those projects by means of a lower interest rate. Also, the FSC will set up regular contact channels with the financial authorities of Vietnam before the end of this year so that Korean financial firms’ sales can be facilitated there. 

**HISTORIC DROP**

## Sales of Korean Large Businesses Fall Most in 12 Years

by Jung Suk-yee

The revenues of Korean large businesses have dropped on the largest scale in 12 years since the “Card Crisis” in 2003.

According to a Bank of Korea report titled “Business Performance Analysis in the First Quarter” released on July 2, the sales of Korean large businesses fell 5.5 percent during the January-March period from a year earlier. The figure is worst since the third quarter of 2003 (-6.3 percent), when the national economy suffered from the Card Crisis, SARs, and the Iraq War. The figure is also higher than the 4 percent drop during the global financial crisis in 2008.



“Large businesses are destined to be influenced by exports, and price factors such as fluctuations in oil prices and foreign currency exchange rates,” said Park Seong-bin, who heads the Corporate Statistics team at the central bank.

“In particular, shipments of cars and smartphones were the most sluggish amid an overall global sluggish demand,” Park added.

The nation’s outbound shipments continued to shrink in June, falling 1.8 percent from a year ago, marking a drop for six consecutive months. The Middle East Respiratory Syndrome (MERS) outbreak is expected to further hamper growth this year. 

**PROFIT PESSIMISM**

## Pessimistic Forecasts Prevail for Major Korean Companies’ Q2 Earnings

by Jung Suk-yee

The estimate of the combined Q2 operating profits of the 183 KOSPI and KOSDAQ-listed companies each covered by at least three securities firms until July 7 decreased by 539.1 billion won (US\$474.5 million) from a month ago to 32.0947 trillion won (US\$28.2514 billion). During the same period, the sales and net profit estimates declined by 7.7826 trillion won (US\$6.8527 billion) and 1.6055 trillion won (US\$1.4135 billion) as well, respectively. The quarterly operating profit estimates dropped or remained still for 123 out of the 183 companies. Samsung Electronics’ operating profits for the second quarter of this year are estimated at less than 7 trillion won, which is far below market expectations.

The estimate of the total quarterly operating profits of the 10 major electrical and electronics companies, including Samsung Electronics and LG Electronics, declined by 6.44 percent month-on-month to 9.6379 trillion won (US\$). LG Electronics’ earnings estimate fell 22 percent from a month ago and 41.23 percent from a year earlier to reach 356.2 billion won (US\$313.5 million). An



increase in marketing expenses, the less-than-expected performance of its new smartphones, and the keen competition in the market are regarded as the main culprits.

Despite the current recovery of the semiconductor industry, the figure decreased by 2.92 percent month-on-month to 1.4655 trillion won (US\$1.2906 billion) for SK Hynix. “The DRAM price is on the decline, along with that of NAND flash memory, to affect the earnings of SK Hynix,” Eugene Investment & Securities explained.

Hyundai Motor Company, Kia Motors, and Hyundai Mobis are predicted to have recorded 3.2817 trillion won (US\$2.8887 billion) in combined operating profits in the second quarter. The estimated figure is 8.9 percent less than a year ago and 4.57 percent less than that of the previous month. Specifically, Hyundai Motor Company’s earnings are forecast to have declined by 13.1 percent year-on-year to 1.8444 trillion won (US\$1.6242 billion), and the estimate for Hyundai Mobis decreased by 3.49 percent in one month to 756 billion won (US\$666 million). 



## STOCK HOLDING COMPANY

# Korea Exchange Reorganized for Growth of KOSDAQ

by Jung Suk-yee

The Financial Services Commission (FSC) announced on July 2 that a holding company structure would be adopted for the Korea Exchange (KRX), and the corporation would be reorganized into a group of wholly-owned subsidiaries covering their respective stock market segments before the initial public offering (IPO) of the corporation scheduled for the second half of next year or later.

The FSC is planning to introduce a holding company structure based on the revision of the Capital Market & Financial Investment Law in this year's regular session of the National Assembly and establish Korea Exchange Holdings next year. The holding company is to then go public through the approval of the FSC.

The holding company is slated to have five subsidiaries, and four of them are to be in charge of the derivatives, KOSPI, KOSDAQ, and the settlement of securities and derivatives transactions each.

The other one is KOSCOM, the computing facilities manager, in which the

KRX has 76.6 percent shares. The market monitoring function of the KRX is going to be transferred to a non-profit corporation separate from the holding company and each bourse. The Korea Securities Depository, in which the KRX owns 70.4 percent shares, is to sell its shares to depository service users such as financial companies for the purpose of corporate governance structure improvement.

The idea of the reform is to turn the KOSDAQ into a platform for the growth of tech-oriented venture firms and small and mid-size enterprises by lowering the barriers and better reflecting their growth patterns, economic conditions, and changes in market demands. To the same end, a startup support center is established for comprehensive consulting services, while measures such as the trading volume limit adjustment are taken to encourage the establishment of an alternative trading system.

Under the circumstances, some experts are pointing out the possibility of

side effects like a reduced level of efficiency and the listing of fewer qualified firms. The viability of the KOSDAQ, which has a loss of approximately 30 billion won (US\$26.7 million) now, has been called into question as well. In this context, the FSC is going to maximize capital during the reorganization and make additional investments over a couple of years so that the management of the KOSDAQ can be stabilized. The fund procured by the IPO will be concentrated on the stock exchange, too.

The FSC has yet to reach an agreement with shareholders on how to distribute profits from the IPO. At present, it is planning to determine the size of the gains to be recovered by setting up a new council and spending the money for public purposes such as the establishment of a public foundation, as is the case in Singapore and Malaysia.

However, shareholders of the KRX are opposed to the plan. On June 30, they claimed that the utilization of the gains as



The Korea Exchange building..

public funds constitutes professional malpractice, unless it is based on legal provisions. KRX stocks are currently traded in the over-the-counter market at about 130,000 won (US\$116) per share, and it is expected that each stock firm will be able to procure approximately 100 billion won (US\$89.2 million) when the OTC market price and a PBR of 1.5 are applied.

### Going Public

As the KRX is scheduled to go public after the adoption of a holding company structure, new light is being shed on the equity value of the KRX shares owned by Korean securities companies, which are the largest shareholders of the KRX,

As of the end of last year, securities and futures trading companies owned more than 88 percent of KRX shares. The others were divided into the treasury stocks of the KRX (4.62 percent) and those of the Small Business Corporation (3.03 percent), the Korea Securities Finance Corporation (2.12 percent), and the Korea Financial Investment Association (2.05 percent).

Each company is expected to be able to gain 100 billion won (US\$89 million) or so once the KRX goes public as planned and it turns the shares into cash. Although the total capital of the KRX is 100 billion won (US\$89 million), its current value is estimated at approximately 3 trillion won (US\$2.7 billion), given that the value per share is at around 140,000 won (US\$125).

Smaller stock firms with poorer financial conditions are expected to benefit more from the IPO. It can encourage



On July 6, Korea Exchange chairman Choi Kyung-soo announces the upcoming launch of the KTOP 30 index. Korea Exchange

clearing by major stockholders in those firms where the equity value is closer to the market cap, which can lead to more M&A deals in the industry.

### Dow Kim

In the meantime, the KRX announced on July 6 that 30 blue chip stocks, including Samsung Electronics, Amore Pacific, Naver, Hyundai Motor Company, and LG Chem, were selected as the components of the KTOP 30, which will be the Korean equivalent of the Dow Jones Index. The KTOP 30 will make its debut on July 13. Six subsidiaries of the Samsung Group are included in it, along with three from SK and two from LG.

At present, the KOSPI is the index that represents the Korean stock market. However, it has been pointed out that it is rather heavy, and does not reflect the growth potential of the Korean economy, because it covers 760 listed companies. According to the Korea Exchange, Korea's current GDP is 36 times that of 1980, and more than seven times that of 1990, while the current KOSPI is 19 times that of 1980 and today's KOSPI 200 index is 2.5 times what it was 15 years ago. This is why the Korea Exchange picked out 30 stocks in view of non-quantitative factors such as market and economic representativeness, investor accessibility, and sustainability. In calculating the KTOP 30 index, the Korea Exchange set Jan. 3, 1996 as the reference date and looked into its movement until May this year. During the period, this index showed a seven-fold increase from 889 points to 6,290 points, whereas the KOSPI as a whole moved up from 889

points to 2,115 points.

The aggregate market value of the 30 stocks is 609 trillion won (US\$538 billion), equivalent to 45 percent of the total market cap. Their average price is 200,000 won (US\$176.84), 130 percent of that of the KOSPI 200 stocks. Their daily average trading amount is 62.5 billion won (US\$55.3 million), whereas that of the KOSPI 200 is approximately 18 billion won (US\$15.9 million). The number of tradeable KTOP 30 shares is 118 million. Exactly 32.4 percent of the shares are IT stocks, and the KTOP 30 and the KOSPI 200 have similar ratios by sector.

Samsung Electronics accounts for 12.9 percent of the index, followed by Naver (12.1 percent) and Amore Pacific (8 percent). Samsung Heavy Industries represents the least of it, 0.4 percent. Two KOSDAQ stocks – Celltrion and Daum Kakao – are also included in it. The Korea Exchange calculated the index based on not the market cap but the stock price averages, as in the Dow Jones Index, so that it can reflect the components evenly. "Investors can easily predict the effect of stock price movements on the index since the components have similar stock price levels," it explained.

Those priced at 500,000 won (US\$442.11) or more per share were excluded from the index, with the only exception of Samsung Electronics. This was because the representativeness of the index could be significantly reduced without Samsung Electronics. A coordination factor of 0.5 is applied to its stock price, though.

Market participants are expecting that the new index will lead to the expansion of other markets such as that of derivatives, while continuing to grow to represent the Korean economy and stock market. "When the liquidity in the derivative market increases based on the exemption of the transfer income tax on the derivatives using the KTOP 30, more index funds, ETFs and the like following the components or the index itself will be able to be seen," one of them said. **BK**

# SPECIAL REPORT



K-BEAUTY EXPO 2015

## Must-see Beauty Trade Show, Business Festival

by Marie Kim

The Korea International Exhibition Center, or KINTEX, announced that the K-Beauty Expo will celebrate its 7th grand opening on Sept. 17th, 2015. This must-see trade show will continue for 4 days and drop the curtain on the 20th.

The 7th K-Beauty Expo, indisputably the largest in Korea and one of the most promising art and beauty festivals in Asia, will be more exciting and vibrant than ever before with the soaring popularity of Korean beauty products throughout the world. The K-Beauty Expo is also a government-certified exhibition organized by the Government of Gyeonggi-do and overseen by KINTEX and KOTRA. Visitors will see "All about Beauty" at one place.

As a banquet of those involved in the beauty industry, the 2015 K-Beauty Beauty Expo will showcase the latest trends in the beauty industry and introduce new products and businesses. Product lineups for this year will be varied.

The show will cover a vast range of products including Cosmetics, Hair, Nails, Aesthetics, Body Care, Medical, Raw Materials, Packing, Inner-beauty foods, Fragrance, Fashion Items, Toiletries, and Spa products. Every year, the K-Beauty Expo brings 40,000 visitors and exhibitors to the region. The event will also offer separate concurrent events and prizes for regular visitors.

### Korea as Springboard for Marketing to Asian Beauty Market

The Korean beauty market has been rapidly growing at a rate of 5 percent year-on-year, and has always been the major force driving the recent Asian beauty trends. The country has become a springboard for the effective marketing of the Asian beauty market. Moreover, its position as the center for the Asian beauty market has been bolstered by the entries of big luxurious brands into the Korean beauty market.

Burberry Beauty Box, which left Korea in 2011, has re-entered the Korean market with a new focus on online marketing. Tom Ford Beauty, a brand of the globally-renowned fashion designer, launched a shop in Seoul in Nov. of last year. Tory Burch and Agatha also made their entries into Korea last year. Hermes perfume also opened at major department stores in Seoul.

Korea's position as a center for the beauty industry has been reinforced through the Korea-E.U. FTA that was concluded in 2009. Since Chinese tourists' purchasing of and demand for Korean cosmetics have skyrocketed, many premium European cosmetics brands such as Lumene, Eisenberg, and Bio-Effect are now competing to gain a share of the Korean beauty market.

With these favorable market conditions, the K-Beauty Expo 2015 is now undoubtedly regarded as the most important venue for the Asian beauty industry. All participants will have the chance to explore new business opportunities with leading Korean beauty companies.

### Reputation as Most Fruitful Business Expo

In the past, approximately 500 local and overseas companies attended the event purely for business purposes and about 600 booths welcomed and excited the international buyers and visitors. The event is known to be optimized for marketing, publicity, and communication. An official for the event proudly said, "62 percent of visitors to the event this year are returning enterprises. The phenomenon is encouraging, as it indicates that the past expo had helped local businesses in substantive ways. This year, we will continue to focus on bringing substantive results again. Overall, we will make every effort to make the K-Beauty Expo the most significant marketing player that represents the beauty industry in Asia."

Last year, the K-Beauty Expo conducted the largest volumes of export consultations, which resulted in turnover of

about 51.3 billion won (US\$43.8 million), and earned a reputation as a very fruitful exhibition. Given the rising number of foreign participants, the organizers are planning to accommodate visitors by country by setting up separate pavilions for different countries. For this plan, the organizers have been consulting commerce sections of embassies in Korea.

### Business Matching Service with Foreign Buyers

The theme of this year's K-Beauty Expo is "a fest for marketing." With 400 companies and 4,000 foreign and local visitors expected to attend, organizers have planned the event more thoroughly than ever.

In a bid to more effectively help Korean companies in the beauty industry to securing export opportunities, the beauty expo solicited assistance from KOTRA's overseas offices in locating likely buyers in foreign countries. In the process, 271 foreign buyers, including Alibaba, China's largest e-commerce company; SASA, Hong Kong's largest cosmetics retailer; Manning, Hong Kong's largest drugstore; and the director of H&M, the global SPA brand, expressed their interest in participating. The organizers selected 150 of these potential participants based on the size of the turnover, purchasing power, and product preferences.

With these potential buyers, the EXPO organizers are planning to run on-site one-on-one business talks. For these one-on-one business talks, organizers arranged specific time schedules with foreign buyers and local companies beforehand. They also facilitated the exchange of products and specific preferences between potential buyers and local businesses in advance. Overall, they worked hard to ensure the "fruits" out of the on-site business talks.

### Briefings on Marketing Strategies in Foreign Markets

The expo this year will also provide briefings on marketing strategies for SMEs with little experience or expertise



to break into foreign markets. In this, the K-Beauty Expo is cooperating with the Foundation for Cooperation among Small, Medium and Large Companies. In order to facilitate briefings and B2B consultations the Expo will invite marketing directors from large retail companies in Korea.

### 2014 Performance

Last year, a total of 40,000 visitors visited the exhibition. Of them, 678 were foreigners. 350 local exporting companies set up 540 booths and welcomed visitors.

With the emphasis placed on generating "fruits" of one-on-one on-site talks, they underwent multiple screenings before selecting 110 potential foreign buyers. The results were remarkable.

Contracts that were actually made proved to be worth about 51.4 billion won (US\$43.9 million), marking an increase of 3.5 times from the previous year. Befitting the slogan "K-Beauty to the world," organizers received praise for the remarkable feat of helping export companies in successfully gaining a foothold in foreign markets. BK

## Overview of the K-Beauty Expo 2015

**Event Name:** K-Beauty Expo 2015

**Date:** Sept. 17–20, 2015

**Venue:** KINTEX Number 1 Exhibition Center, Halls 3, 4, and 5

**Organizer:** Government of Gyeonggi-do

**Sponsors:** KINTEX and KOTRA

**Displayed Items:** cosmetics, hair products, nail treatments, body care products, fitness products, raw materials, medical products, products of OEM or ODM companies

### Concurrent Events

- Invitation of foreign buyers for one-on-one consultations on export opportunities
- Briefing on retailing industry by marketing directors from large companies in Korea
- Ceremony to award the prizes for K-Beauty 2015 Editor's Choice
- Talks led by mentors in beauty industry
- Seminars on strategy for breaking into export markets
- Briefings on online retail market in China
- Booths specializing in men's beauty products
- Booths on scalp care lotion and hair implants
- Hair trend show

**K-BEAUTY EXPO 2015**

# Overview of Participating Companies

**ReinPlatz Cosmetic**

[www.reinplatz.com](http://www.reinplatz.com)

Contact: Lee Jae-yeon 02-6093-5222



After locating in Gochang in the south-west region of Korea, ReinPlatz Cosmetic has developed and manufactured products with local agricultural products, such as rubus coreanus, blueberries, pesticide-free rice and green tea, as an ingredient. It is a naturalistic cosmetic brand that makes customers beautiful utilizing the natural benefits of Gochang, known as a clean area, and pursues the eco-friendly lifestyle to protect the natural environment. Currently, the company makes 70 percent of its profits from overseas markets in China, South-east Asia, the U.S., and Japan. With differentiated designs and product planning abilities, it took part in developing new products for global cosmetics brands in China and the U.S., having strength in the original design manufacturer sector.

**ElishaCoy**

[www.elishacoy.com](http://www.elishacoy.com)

Contact: Jessie Jung 02-2140-7323

Marking the 10th anniversary of its founding this year, ElishaCoy has initiated



“K-beauty” by exporting products to 20 countries, including Japan, China, Hong Kong, Malaysia, and India, after the brand launched. With its brand power being recognized, the company opened 100 stores in SASA, one the leading cosmetics and retailing beauty services group in Hong Kong, and DFS Hong Kong in Tsim Sha Tsui. In particular, it has revealed a new product, “Perfect Cover Cushion,” thanks to the high popularity of the Pink Blooming Cushion. Based on the expansion of the cushion foundation lineup, ElishaCoy plans to activate the channels of the domestic health and beauty store Olive Young.

**Konad**

[www.konadcospmetic.com](http://www.konadcospmetic.com)

Contact: Kim Na-young 070-4398-9808



KONAD is a smaller sized cosmetics company that has impressed the global beauty industry by developing Stamping Nail Art kits, which is considered to be the most wonderful invention in the beauty industry, for the first time in the world. KONAD Stamping Nail Art kit, the representative product of the company, enables you to create beautiful nails without professional help. It is a new nail-imprinting kit that lets you put designs by stamping predesigned images on your nails in minutes.

**Ancors**

<http://ancors.co.kr>

Contact: Kim Min-jun 070-4900-0603



Ancors, South Korea’s cosmetics brand to develop and manufacture basic skincare products, has succeeded in developing and mass producing Picture Hydrogel Masks for the first time in the country. The Picture Hydrogel Mask is produced by printing animal or preferred pictures and drawings on the mask, then coating the printed mask with hydrogen gel. Accordingly, customers can design the masks with various paintings and pictures.

**Pinebio**

[www.pinebio.net](http://www.pinebio.net)

Contact: Na Sa-ro



Na Sa-ro 031-876-0995

Pinebio, a company located in Gangneung, Gangwon Province, has recently participated in the “Regional Intellectual Property Creation & Support Project” of the Gangneung Chamber of Commerce and Industry’s Regional Intellectual Property Center, and released the renewal products of its Cleopine brand. Cleopine is a functional cosmetic that can improve eight skin problems at once, such as wrinkles, skin tone, skin damage, aging, dry & oily skin, inelastic skin, lusterless skin, and moisturizing.

**EZpack Corporation**

[www.ezpack.co.kr](http://www.ezpack.co.kr)

Contact: Kevin Song 031-8071-4800

EZpack Corporation is a wrapping machine producer that develops, manufactures and sells over-wrapping machines that wrap boxes with plastic



film. In particular, the company develops and exports manual and semi-auto over-wrapping devices suitable for multiple-product compact packaging, which is needed in the cosmetics industry. Also, it is better known in the overseas markets, rather than the domestic one, in the over-wrapping, cosmetics, and box packaging sectors.

### Miguhara

[www.miguhara.com/](http://www.miguhara.com/)  
Contact: Lee Seong-guk 031-786-0365



Founded in 2013, MIGUHARA produces and sells cosmetics made with all-natural ingredients, aiming at supernaturalism, skin trouble treatments, and intensive moisturizing. By manufacturing products through the OEM system, it is a company that generally distributes and sells products online with business to customer (B2C) marketing. Currently, MIGUHARA focuses on the domestic market, but plans to tap into the overseas markets in the future. The representative products are whitening, acne-prone and moisturizing lines.

### Art Works

[www.beaubar.co.kr](http://www.beaubar.co.kr)  
Contact: Yu So-ra 031-945-3241

The view bar cosmetic spinning organizer is designed in a hexagonal shape. After it went viral as the beauty mentors' organizer, it became so popular in the online beauty market that many me-too products have launched. However, the home-produced product has unrivaled solidity and durability, unlike other brand



products imported from China, the company said. Since the spinning organizer has recently been upgraded, you can choose it for either basic skincare products or makeup products. Also, you can adjust shelves to be the way you want.

### Songhak

[www.ohbeauty.co.kr](http://www.ohbeauty.co.kr)  
Contact: Eom Jung-yong 031-778-2209



Starting with mud masks in 2002, Songhak is considered a dark horse in the cosmetics industry, which has kept making hits in the TV home shopping network with unprecedented products, such as the Oxygen Mask Cleanser, the Showking Mascara, the Roller Foundation BB, and the Spray Mask Pack. In particular, the Oxygen Mask Cleanser, which is popular to working women, is suitable for general skin types, removes dead cells, and is simple to use.

### Nami Design

[www.thenamie.com](http://www.thenamie.com)  
Contact: Shin Hye-in 031-451-5188



Based on the world's best nail art design development capabilities, Nami Design is leading the trends in the design nail market with its various designs

and best quality products. Pre-designed nails, as one of its major items, currently include the patch type nails and the premium handmade nails, which are planned, designed, produced, distributed, and exported. The company is supplying its products to AmorePacific, the best cosmetics firm in Korea, as an ODM, and also to Dubai SPLASH as an ODM for them to be sold to 15 countries in the Middle East. In particular, its patch type pre-designed nails allows you to conveniently put it on and take off unlike the existing nail polish.

### Sensco

[www.storyderm.com](http://www.storyderm.com)  
Contact: Yang Hoi-sung 02-3462-0809



SENSCO is a specialized provider of medical beauty solutions in South Korea. It is supplying the Dr. Healing Peptide System to hospitals and aesthetic shops. This system helps your face be firmer, whiter, and more moisturized right after spreading a thin layer on the face with a brush. Since it contains more than 30 percent of peptide and collagen, the system delivers strong moisturizing, anti-wrinkle, whitening, and regenerative effects on your skin.

### Mentor Lab

[www.baramo.net](http://www.baramo.net)  
Contact: Kim Yoon-Jung 02-552-4080



Mentor Lab, which treats mental disorders including stress alopecia and trichotillomania, is established for many patients suffering from hair loss by doc-

tors and researchers. It has launched eight products of BARAMO, which contains patented plant extract substances Triko-activeTM (Korea Patent Registration No. 10-0845786). For the first time in the country, it was awarded the grand prize in the hair loss industry at the 9th Korea Health Industry Awards 2015.

### NoTS

[www.nots.co.kr](http://www.nots.co.kr)

Contact: Oh Jae-young 010-2478-5589



NoTS is a cosmetics brand made with all-natural ingredients. The 28 Remedy Repair Cream is ideal for sensitive and acne-prone skin that intensively supplies moisture by activating aquaporins, membrane water channels that play critical roles in controlling the water contents of cells. The 28 Remedy For Man products soothe your skin, maintain the oil-water balance and restore the regenerative cycle of your skin. Also, there are other good products. The 28 Remedy Juvenile Sun B.B For Man safely protects your skin against UV rays and covers skin flaws. The 28 Remedy Acne Pore Deep Cleanser helps your skin clean without causing any skin problems, even for sensitive and acne-prone skin.

### Wow Ventures

[www.wlab.co.kr](http://www.wlab.co.kr)

Contact: Lee Hye-ji (Sophia) 070-4693-1252



As WLAB, a trademark of Wow Ventures, has released the CO2 Carbonic Body Fit Cream, which contains vital

PPC ingredient and various plant extracts for effective skin care, it is being greatly favored by female consumers who want to reduce body fat. With WLAB signing a partnership agreement with New & New Co. which can produce carboxy creams with its patented substances in order to improve the reliability of products, its technology was being recognized. In particular, WLAB's patented technology using carbon dioxide can help your body absorb anti-cellulite ingredients more effectively.

### Queen Business

[www.miss-sophia.com](http://www.miss-sophia.com)

Contact: Ju Yo-han 02-716-7126



Queen Business has been producing basic skincare and makeup products and other cosmetics-related products with an OEM or ODM for 25 years since 1989. It is also jointly developing products with overseas buyers and exporting them to major cosmetics firms around the world. Twenty five years of strong basic skills and international sourcing capabilities of various products are the company's unique strength. It can also always provide new and good products to customers at a reasonable price. Queen Business is launching numerous new products in 2015 in a bid to meet the needs of customers. The company is introducing hot items – the Photoshop Essence Makeup, the Vita CC White Detox Cleanser, the Vita D Essence Powder, and the Vita CC One-step Snow Cream – in Asian countries, including Japan, the Middle East, China, and Korea, in 2015.

### Hair Joy

Contact: Han Ju-yo 031-399-7721

Hair Joy is a specialized company to produce hair growth products, which makes your hair and eyebrows healthier by preventing loss and promoting the



growth of new hair and eyebrows. Currently, it is supplying hair loss treatments to 50 hospitals. In particular, the anti-hair loss shampoo is produced with 30 Chinese herbs as its major ingredients. It passed both hair growth tests conducted by E-Mart, the largest retailer in South Korea, and Canada's Loblaws, the largest retailer in North America.

### Global Gangwon Trade Co., Ltd.

[www.ggtrade.co.kr](http://www.ggtrade.co.kr)

Contact: Kim Myeng-ja 033-255-1552



Global Gangwon Trade produces its two beauty devices – the moisture spray and the vacuum massager – and natural homemade soaps with an OEM or by itself. It is also an international trading company that directly exports 150 products from 35 small and mid-size firms in Gangwon Province to overseas markets. Along with an international online marketing strategy, the company sells its products and partners' products on B2B e-commerce websites – buyKorea, tradeKorea, GobizKorea, Ec21, Ecplaza, HKTDC, and tradekey – and B2C websites – kmall24, WORLDIBUY, and ebay. It is the first e-commerce exporter in Gangwon Province.

### TDC CO., Ltd.

[www.dr-young.co.kr](http://www.dr-young.co.kr)

Contact: Seo Hye-eun 02-555-9476

Skin age solutions from Dr. Young means younger, healthier, and more beautiful skin. It creates its anti-aging solution by balancing water, oil, amino acids, and protein in the skin. Currently, the global



brand has more than 405 stores around the world, including Hong Kong, Malaysia, Thailand, Singapore, the U.S., and China. As the company recently started business in China, it is licensed to sell more than 10 Dr. Young products by the Ministry of Health of the People's Republic of China.

Dr. Young CEO Chae Kyung-a showed an ambitious goal, saying, "Through exhibitions in Shanghai this spring, the brand has received much attention from Chinese firms. With exhibitions in Beijing and Guangzhou in the fall, we are planning to accelerate business in China." The company will also take part in the K-Beauty Expo scheduled to be held at KINTEX in Sept. in Korea. You can find the brand in 50 stores of Belport, Lotte Department Store Belport, and Lohb's.

The representative products are the U-line Clearing Mist, the Pore Eraser Balm, and the Centella Scar Ointment. Dr. Young's Deep Clearing Clay Mask and Mask Sheets recently made an appearance on a popular SBS weekend drama. With good quality, Dr. Young will hopefully become a more desired brand by customers.

### Beauty People Cosmetic

[www.beautypeople.co](http://www.beautypeople.co)

Contact: Serena 070-4651-0985



As the number one brand in the Beauty product category at open market and social commerce websites in Korea, its products are receiving more than 3,000 customer reviews. As Beauty People sold more than 25,000 eyeliners, its main products, for a week after launching, many customers asked to restock the

products.

With its unique and cute packaging designs and efficient product lineup, the Snow White Edition Series were sold out early at home shopping channels at home and abroad.

As Beauty People has participated in beauty expos in Hong Kong and Shanghai several times, international buyers from more than 40 countries around the world have proposed to export the products. With good quality and reasonable prices, the brand is highly competitive in the global beauty market.

### White Rabbit Beauty

[www.white-rabbit.kr](http://www.white-rabbit.kr)

Contact: Park Hee-ung 010-5542-2409



WhiteRabbit produces, distributes and sells 100 percent organic cotton facial pads, wet wipes, and panty liners. Since WhiteRabbit uses beat-up and water jet cotton, unlike other companies, the products do not contain any bleaching agents or harmful chemicals due to its manufacturing process. The company manufactures products with materials that are approved by the U.S. Food and Drug Administration (FDA) and have received Lifestyles of Health and Sustainability (LOHAS) certification. It also produces facial cotton pads using materials that have received FITI Testing & Research Institute's Sanitary Finished (SF) Mark and quality guarantee Q Mark, and are patented with antibacterial qualities. WhiteRabbit is the only company using materials manufactured by water jet processing in Korea. Since the company has numerous licenses and mesh cotton, it is possible to produce products overseas.

WhiteRabbit always puts nature and humanity first. Using only 100 percent pure cotton fiber, the company values the environment and your skin over anything else, and develops the best products with the excellence of its own cotton.

### LALA

[www.lalacos.co.kr](http://www.lalacos.co.kr)

Contact: Kim Min-jung 070-4849-1249



Started in May 2012 as a company that sells special offer cosmetics online, Lala Corp. has developed nearly 40 products for the past three years and become one of the leading cosmetics firms in the beauty product category at social commerce websites. With the company entering into an alliance with more diverse partners in other countries, including Japan and China, as well as numerous domestic distribution channels, Lala Corp. is reaching out to new customers. With slogans "One Drop on Your Panty, Rose Day" and "You Are Crazy About Me, Pheromone Perfume that Seduces Opposite Sex," the company achieved its sales goal of 3 billion won (US\$2.56 million) with its natural therapy oil "Rose Day," which became a must-have item for Korean women in 2014, and pheromone perfumes.

Currently, the company has tapped into the gel nail market. As it receives favorable reviews from customers with its high quality products at reasonable prices, Lala Corp. plans to expand overseas exports and secure more influential distribution channels through various exhibitions at home and abroad. While cooperating with offline vendors and blending its president's experiences in the home shopping industry, the company will focus on launching beauty devices and collaboration products with Kakao Talk Friends' designer Hozo, which are still under development, in the home shopping channels, and stepping into the overseas markets with these products. Moreover, it plans to increase sales in its own shipping mall by directly managing the mall and carrying out various marketing campaigns for customers. **BK**

# Introduction of Exhibition Zones

## Cosmetics Zone

A variety of cosmetics including basic, functional, and organic cosmetics will be on display.

Cosmetics that are popular in the online community and spread by word-of-mouth will also be on display and available for on-site use and purchase.

## Hair Zone

A variety of domestic and foreign cosmetic devices will be on display, and visitors' on-site use of these hair styling devices will be also possible. The top 5 local franchises in hair styling will launch a hair show. Overall, visitors will be introduced to the latest trends in the hair styling industry in Korea.

## Aesthetic Zone

Skin care services, semi-permanent make-up, and an eyelash extension service that is only available at beauty parlors will be provided on the spot. Products and programs will be available for on-site purchase.

## Medical Services Zone

Medical professionals in plastic surgery, dentistry, and dermatology, and members of the Gangnam-gu Medical Tourism Association will be participating en masse. Their participation is expected to attract foreigners interested in beauty services to the Expo. For general visitors interested in medical beauty services, consulting will be provided.

## Inner Beauty Food Zone

Detox, diet products, carbonated water, and supplements that help skin care and diet will be on display.

## Body Zone

Health and slimming devices that can be easily used at home will be on display. A device for lower-body bathing, which is designed to help blood circulation, is one of them.

## Fitness Zone

Regardless of gender, everyone is interested in fitness. Programs and

instruments relating to fitness, such as yoga, pilates, zumba, and equipment for these exercise programs will be introduced. On-site use will also be possible for visitors.

## Fashion Zone

Jewelry and accessories that would add charm after hair-styling and make-up will be exhibited.

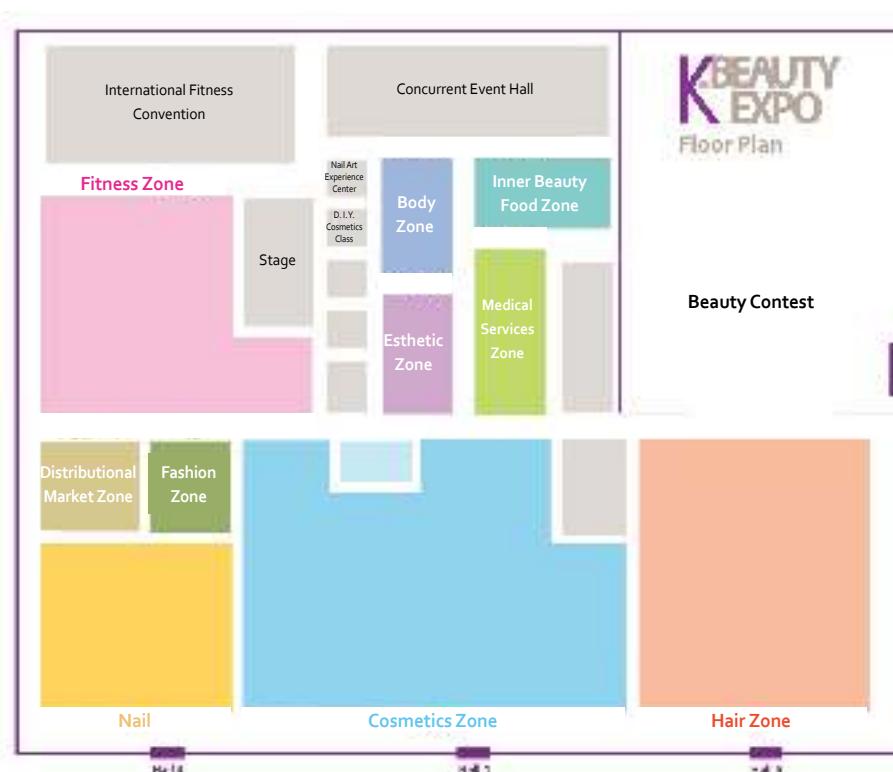
In particular, the booming modernized Hanbok will be exhibited as part of K-fashion trends.

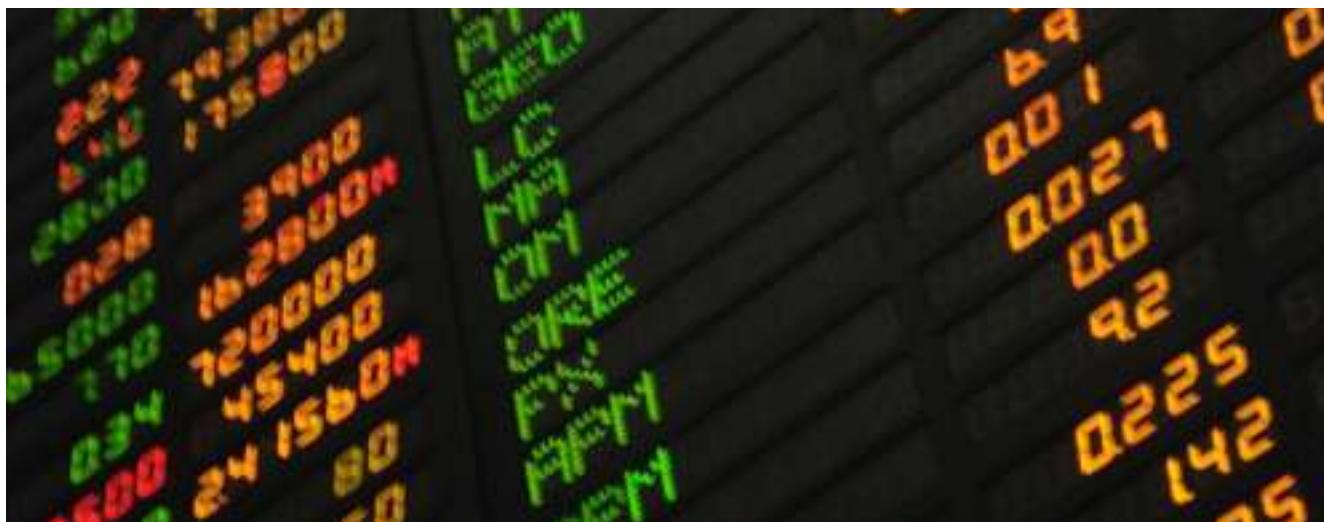
## Distributional Market Zone

Hyundai Department Store and Lotte Department Store are expected to participate in running a Thanksgiving Gift Market. A variety of beauty products will be offered at reasonable prices.

## Beauty Contest

An International Body Art Contest and an International Beauty Therapy competition are scheduled to be held at the same time.





## VULNERABILITY TO HOSTILE ATTACK

# Hunters Aiming at Undervalued Korean Companies

by Jung Suk-yee

Samsung Electronics shares closed at 1,305,000 won (US\$1,132) on July 17, equivalent to approximately 290 percent of the price during the global financial crisis in 2008. Nevertheless, the company's price-to-book ratio (PBR) stood at 0.96, about one-fifth of Apple's.

This is an example of how undervalued Korean stocks are. Recently, Elliott Management was opposed to a merger between Samsung C&T and Cheil Industries on the grounds that the price of Samsung C&T shares was low.

The undervaluation of individual stocks has resulted in the undervaluation of the Korean stock market as a whole. It has drifted sideways for four years while American, Japanese, Chinese, and European stock markets have enjoyed a boom.

Experts point out that this is because of the structural vulnerability of the Korean capital market. "Korea is a small-scale open economy, and its capital market is fully open to the outside, which means that the country is easily swayed by external factors such as tapering," one of them explained, adding, "Enterprises themselves need to make efforts to raise their dividend payout ratios, make their governance more transparent, etc."

According to industry sources, the corporate value of Samsung Electronics, which has the largest aggregate market value in Korea, is approximately one-fifth of Apple's. Apple recorded a PBR of 4.95 in the middle of this month, when Intel's was 2.38.

The market caps of Samsung Electronics and Intel are 188.8 trillion won (US\$163.8 billion) and 162.9 trillion won (US\$141.3 billion), respectively. Hyundai Motor Company's PBR is at 0.51 or so. "Although the PBR is not the sole index for corporate value analysis, the low PBR levels of those companies representing Korea imply that shareholders have a lot of discontent," said Hwang Young-ki, chairman of the Korea Financial Investment Association, continuing, "Besides, the PBR of the market as a whole is low and those of conglomerates are particularly low, which is problematic."

For reference, Toyota's current PBR is 1.53. The figure is 1.18 for GM and no less than 26.14 for Tesla Motors. That of POSCO is just 0.38, much lower than Nucor's 1.67, Baosteel's 0.93, Nippon Steel's 0.7, and Alcoa's 0.84. Samsung C&T has a PBR of 0.8 with a market cap of 10.8259 trillion won (US\$9.39222 billion). Meanwhile, Shimizu Corporation has a PBR of 1.88, along with an aggregate market value of 7.7902 trillion won (US\$6.7568 billion).

The underestimation can be attributed at least in part to Korean enterprises' corporate governance structures being weakened during the course of business inheritance. This has led to a higher level of vulnerability to vulture funds such as Elliott Management, which, in turn, has brought about a bearish stock market that foreign investors refrain from investing in. 



Professor Shin Jang-seup makes a presentation about the characteristics of activist funds.



## ANTI-CONGLOMERATE SENTIMENT

# Making Korean Companies Vulnerable to Activist Funds

by Jung Suk-yee

**P**rofessor Shin Jang-seup of the National University of Singapore pointed out that the conflict between Samsung C&T and Elliott Management is because of the Korean government's anti-conglomerate policy, characterized by the most restrictive fair trade act in the world and complex procedures regarding the succession of management rights.

"Even the Samsung Group, the largest business group in Korea, has become vulnerable to activist funds due to the government's inflexible enterprise policy," the professor remarked at the June 25 seminar in Seoul hosted by the Citizens United for a Better Society, adding, "Korea is one of the few countries where a single voting right per share is forced by commercial law, too."

The professor mentioned that, in advanced economies, fair trade regulations come into play only when collusion, abuse of status, or the like causes specific side effects such as monopoly or restriction of competition, whereas enterprises in Korea can be subject to regulations just because of the number of subsidiaries or the size of assets, as the fair trade act of the country includes restrictions on business consolidation and economic power concentration.

"Besides, the succession of control over a company via its foundation is not easy in Korea, due to the government regulations with regard to the foundation's stockholding, and this has caused companies to become unable to protect their management rights and short-term speculative funds to have their own way," he continued, adding, "Under the circumstances, the policy should be overhauled so that protective measures such as the poison pill and dual-class voting rights can be adopted." *BK*

## BAKED-IN UNFAIRNESS

# Disproportionate Voting Rights Issue to be Brought into Congress

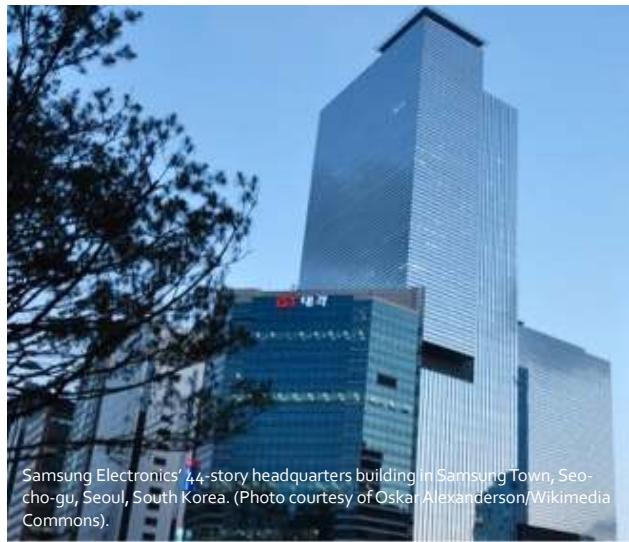
by Cho Jin-young

**D**isparate voting and stock purchase rights, two of the most well-known ways for the protection of management rights, are being debated in the National Assembly to keep foreign speculative funds at bay. This is the first time that the disparate voting rights issue has been legislated, though an attempt to introduce reduced stock purchase prices for existing shareholders, a.k.a. a "poison pill" law, was made five years ago.

"We are planning to table a bill this month, in cooperation with the Korea Listed Companies Association, to amend the Commercial Code, with Elliot management trying to inhibit the merger between Samsung C&T and Cheil Industries, and the protection of management rights emerging as a hot issue," ruling Saenuri Party lawmaker and Vice Speaker of the National Assembly Jung Kap-yoon said on July 14.

The purpose of disparate voting rights is to promote the stability of corporate management by giving more voting rights to management shares. That of the "poison pill" is to prevent hostile M&As by allowing existing shareholders to purchase new shares at a discounted price. However, disparate voting rights can be exercised at any time, which means that there is the risk of an existing major shareholder abusing it.

"Korean enterprises have few ways for management rights protection, and this has resulted in side effects such as the accumulation of reserves to be prepared for an emergency," the lawmaker explained, adding, "Once the disparate voting rights are brought in, the reserves will be able to be used for investment purposes." *BK*



Samsung Electronics' 44-story headquarters building in Samsung Town, Seocho-gu, Seoul, South Korea. (Photo courtesy of Oskar Alexanderson/Wikimedia Commons).

## SELECTING LEADS

# Samsung Selects 10 Core Techs in IoT Era

by Cho Jin-young

The Samsung Group selected ten candidate technologies that are expected to lead the Internet of Things (IoT) era. They are about new techs that can connect to smart sensors and mobile devices, which are essential for continued growth of Korean industry, including Samsung.

On July 13, Samsung announced this year's 10 support projects to nurture future technology. Smart sensors and system software were designated as two major themes for this year, and five projects were selected for each theme. The company is going to throw its full support behind 10 projects through the Samsung Science & Technology Foundation and the Future's Technology Nurturing Center inside Samsung Electronics.

A project headed by Professor Lee Ji-sung from Ulsan National Institute of Science and Technology to develop a 3D smart tactile sensor using a nanocrystal compound was chosen as one of the 10 projects. Another selected project is being led by Professor Kim Jang-woo from Pohang University of Science and Technology (POSTECH), about developing a software system that makes online communications between devices possible. They are the core IoT techs that Samsung focuses on as future growth engines. A Samsung associate explained, "Our choice is not based on the possibility of turning techs into money-making ventures right away. Rather, we choose techs among projects proposed by academic circles, depending on whether or not

they are worth investing for the national interest."

In the software field, a method capable of increasing the power efficiency of mobile devices up to 30 percent developed by Professor Jun Byung-gon from Seoul National University, a tech to improve data communication capabilities of NVMe SSDs by Professor Kim Jin-soo from Sungkyunkwan University, a technique for collecting and storing a large amount of data by Professor Kim Yong-gon from Seoul National University, and a method to develop a next-generation engine for data processing by Professor Park Sung-woo from POSTECH were all selected as support projects.

As for the censor category, selected projects include tactile sensors using complex nanomaterials developed by Professor Lee Kyu-cheol from Seoul National University, conductive polymers to make a next-generation sensor for disease diagnosis on the spot by Professor Yang Hae-sik from Pusan National University, a disease-warning sensor using bodily fluids by Professor Kim Young-pil from Hanyang University, and an artificial inorganic light-emitting antibody that can be used to detect pathogens by Professor Kim Jong-ho from Hanyang University.

Since 2013, Samsung has conducted a 10-year project to nurture future technology with a 1.5 trillion won (US\$1.3 billion) investment. It announces dozens of support projects in the fields of basic science, materials tech, and ICT every half year. From last year, it has also designated themes and selected support projects related to areas that are believed to be urgently needed, in addition to these three categories. Last year, energy storage and collection and IoT security were the designated themes. To date, 160 projects have been chosen. The company is scheduled to announce the results of its project selection for the latter half on Oct. 8. **BR**

## THING-BASED INTERNET

# Korea Has Largest Number of IoT-Connected Devices



**S**outh Korea reportedly topped the global ranking on the number of the Internet of Things (IoT)-connected devices. Experts are saying that the nation has taken a step forward to become an infrastructure powerhouse in the IoT market, which is still in its early stages.

The number of IoT-connected devices per 100 Koreans is 37.9, which put the nation in the top spot, said the Ministry of Science, ICT and Future Planning (MSIP) on July 16, citing the OECD Digital Economy Outlook 2015 published by the OECD on July 15. Denmark was in the runner-up position with 32.7 units, followed by Switzerland with 29 units, and the U.S. with 24.9 units. Among the OECD's 34 member countries, the gap between Korea and other countries in the top slots is wide. There are 18 million IoT-connected devices in Korea, which placed the country in the third spot, following the U.S. (84 million units), and China (78 million units.)

Korea nabbed the top spot in the proportion of ICT value added to the entire one reflected in commodity prices with 10.7 percent as of 2013. The nation also topped the global ranking on download speeds and average connection speeds, and was the only OECD member country that saw the weight of ICT exports grow in 2013 compared to 2001. In addition, Korea occupied the runner-up position in the ratio of ICT employment to total employment with 4 percent, and accounted for 6 percent of the total ICT exports around the world, propelling the country to fourth place.

Prices for mobile services in the nation are considered to be lower than those for OECD member countries on average. Mobile telecommunications bundles are the second-cheapest in Korea, following France.

However, the country ranked 28th in homepage ownership and 24th in the use of cloud computing services. Korea's low ranking of the use of cloud computing is presumably due to the fact that small businesses comprise a large proportion of the industry. BK

## REMOTE CONTROL HOUSE

# Home Becomes Smart Environment Using IoT

**F**urniture and building materials companies have started to actively respond to the era of the Internet of Things (IoT) by integrating ICT into their products.

According to industry sources on July 8, furniture companies such as Hanssem and Hyundai Livart are actively seeking to develop smart furniture by forging partnerships with electronics and telecommunications companies. LG Hausys, a building



materials company, is leading the evolution of residential space as shown by its development of smart windows capable of opening and closing on their own, and controlling light via a smartphone.

Hanssem created a device business unit late last year, working to develop smart furniture with LG Electronics and other electronics companies. Its smart home products are aimed at using space more effectively by integrating consumer electronic products into furniture. Built-in furniture is simply the combination of home appliances and kitchen furniture, while smart furniture is a more upgraded version.

Hanssem is going to showcase a product that combines a microwave and kitchen furniture, a 2-in-1 product that adds a shoe-drying function to a shoe cabinet, and a dressing table with a tablet PC inside the mirror. The smart dressing table can evaluate the skin of the user, since there is a special camera built into the mirror.

Hyundai Livart already developed ICT-integrated smart kitchen furniture in Nov. 2014, together with SK Telecom, the nation's largest mobile carrier. The smart furniture can be used like a smartphone through the Internet and a touch screen on the mirror and the walls. In addition to making phone calls, it is possible to play music and videos stored on a smartphone. It is also possible to get information on the price of agro-fishery products and recipes useful for rookie housewives. On top of that, the furniture company recently unveiled ICT-based student furniture, which has met with a very positive reaction from parents.

LG Hausys opened an era of smart building materials by debuting smart windows as well. The functions of the smart windows can all be controlled with a smartphone, including opening or closing windows, sounding burglar alarms, ventilating the house, and controlling light. It is possible to wirelessly open or close windows using a related app from the outside of the house. When windows are opened by force, users are immediately notified via their smartphone.

Boiler manufacturers are also using the IoT by integrating ICT into their products. KyungDong Navien released Navien Remotely-controlled Home Automation in June 2014, using a smartphone-enabled remote control technology. BK



## INTERNET BANK

# Industrial Capital Allowed to Own 10% of Internet Banks

by Jung Suk-yee

**O**n July 22, the Financial Supervisory Service (FSS) held a meeting in Seoul in order to give an explanation of its Internet primary bank screening criteria. The meeting was attended by more than 300 persons from insurers, securities companies, IT firms, e-commerce companies, distributors, and so on, including Mirae Asset Securities, KB Financial Holdings, Shinhan Financial Group, LG CNS, DBK Partners, Daum Kakao, KT, SK Telecom, and LG U+.

“Shareholder lineup and business planning are two of the most important factors for preliminary approval,” the FSS explained, adding, “We would like to ask you to set up your plans during the remaining period in view of the fact that we are focusing on IT-finance convergence rather than commercial banks’ largest shareholder status.” A couple of companies are scheduled to be given preliminary approval in Dec. this year after the filing of applications from Sept. 30 to Oct. 1.

According to the FSS, the minimum capital requirement is 100 billion won (US\$85.9 million), equivalent to the average of those of commercial banks, and Basel I is adopted with regard to capital adequacy. A liquidity coverage ratio of 70 percent is

applied to preliminary approval and final approval alike. Non-financial business operators’ shareholder ratio is limited to 4 percent, but the percentage can be allowed to go up to 10 percent on the condition that the voting rights pertaining to the extra shares are waived.

The shareholding ratio of a financial business operator, which is defined as a company that has a non-financial capital ratio of less than 25 percent or total non-financial assets of less than 2 trillion won (US\$1.7 billion), is limited to 10 percent, but can be increased to 100 percent by the approval of the FSS. This means that only financial business operators such as securities companies, insurers, holding companies in the banking sector, and independent banks can become the largest shareholders as of now. Companies holding insurers or financial investment firms can own the status, but they have to change into bank holding companies upon having an Internet primary bank as a subsidiary. A bank associated with a bank holding company cannot become the largest shareholder. “The government is negative about existing banks’ participation in Phase 1, and thus it is likely that non-banking sector players and IT firms will form a number of consortia,” said an industry insider.

“In a case where a financial business operator and industrial capital form a consortium together and they officially agree to exercise their voting rights together, the contracting parties are regarded as a single entity according to the Banking Act, and the consortium’s shareholding ratio is limited to 4 percent,” the FSS stressed with regard to this point. It is said that the FSS, in doing so, seeks to prevent the joint exercise of voting rights while allowing a physical coupling between industrial capital and a financial business operator. 

## OPEN FINANCES

# Fintech Firms to Build Open Fintech Financial Platform

by Cho Jin-young

**I**t will be possible for Korean financial technology (fintech) companies to develop services by downloading standardized technical specifications from banks and securities companies during the first half of next year. In addition, a testbed to check whether or not developed financial services really work in computer networks is expected to be commercialized.



The Financial Services Commission (FSC) held its third demonstration day for fintech support centers at the Creative Economy Innovation Center in Pangyo, Gyeonggi Province on July 15, announcing its plan for building an “Open Fintech Financial Platform.”

“We will build an ‘Open API’ system that provides financial service programs necessary for fintech companies in a standardized form by the end of the first quarter of next year, in partnership with 17 banks, 15 securities companies, the Korea Financial Telecommunications & Clearings Institute [KFTC], Koscom, and the Financial Security Institute,” said Vice Chairman Jeong Chan-woo of the FSC, who attended the event. An application programming interface (API) refers to a program command that helps people make applications more easily.

The open platform is the combination of an open API that offers financial companies’ services in a standardized form, and a testbed that for developed financial services in computer networks. KFTC and Koscom will build an API for the banking sector and an API for the financial investment industry, respectively, in the form of a portal. Later, fintech companies will be able to download and utilize the technical specifications for the development of services.

The nation’s financial regulator believes that the construction of the open platform will drastically reduce the time and cost necessary to develop fintech services. For example, when the API to check an individual bank balance is made public, it will be possible for fintech firms to create a new household ledger app with a function that enables people to check their bank balance by adding the API to an existing household ledger app. On top of that, 17 banks will be able to use the open platform, since the API is standardized. An FSC official noted, “If the open platform is built as planned, it will be the world’s first case.” The official added, “The construction of the open platform will serve as an opportunity for our country to grow from a latecomer to an advanced nation in the fintech field.” **BK**

## FINTECH CRAZE

# Electronic Financial Business Operators Registered Actively

by Cho Jin-young



With the financial technology (fintech) craze in the financial and IT sectors, the number of companies registered as electronic financial business operators from Jan. 1 to July 17 of this year is said to be the highest since 2007.

Eleven companies entered the electronic financial business sector between Jan. 1 and July 17, according to data on electronic financial business enrollment published by the Financial Services Commission and the Financial Supervisory Service on July 20. As a result, 78 companies are currently involved in 135 kinds of electronic financial businesses.

The number for this year is the highest since the Electronic Financial Transaction Act was implemented in 2007. A total of 30 companies were registered as electronic financial business operators in total that year when registration began. In 2008, 9 new companies were enrolled, but the number declined to 3 companies in 2009, 5 in 2010, and another 5 in 2011. Six other companies in 2012, four in 2013, and seven in 2014 were included as e-financial business operators. The combined figure for 2013 and 2014 is the same as the number of registered companies from Jan. 1 to July 17 of this year.

Officials in the financial and IT sectors believe that if this trend continues, it is possible to see 20 new companies enroll as e-financial business operators by the end of this year. **BK**

**COMING SOON**

## Samsung Pay in Final Tests with 8 Local Card Firms

by Cho Jin-young

**B**efore the rollout of Samsung Electronics' mobile payment platform Samsung Pay in Sept., the company is strengthening tests on its technology with card companies for the last time. Samsung is struggling due to the fact that its technology to send information to card readers at checkout counters through magnetic fields does not work as smooth as was thought.

According to financial industry sources on July 2, Samsung Electronics is conducting various technical tests with eight domestic card companies before the official launch.

The payment of Samsung Pay, powered by Loop Pay, works like this. First, a user creates a replica of a card's magnetic information, which is represented as a card on the mobile device



Samsung Pay uses Near Field Communication to transmit payment information.

screen. Second, the user authenticates their own identity by putting a finger on the home button of the smartphone. When the user does this, the smartphone recreates the magnetic field of the card. Then, the magnetic field created by the smartphone is used to activate a Credit Authorization Terminal (CAT) just like a physical plastic card.

But the rumors are that the fingerprint verification and magnetic field formation still don't work correctly, so Samsung Electronics keeps testing the technology with card companies. Since Samsung Pay requires users to verify their fingerprints on mobile devices and form magnetic fields every time they pay at checkout counters for security reasons, it is crucial to reduce error rates for quick payment. **BK**

**FINGERPRINT-BASED VERIFICATION**

## iPhones Dominating Local Biometric Mobile Payment Services

**T**he nation's iPhone users are said to be more actively utilizing local mobile payment services through fingerprint identification than those who own Android phones.

Since May, the number of iPhone owners who have used mISP through fingerprint identification is much higher than those who have used Android devices, according to online payment service provider VP on July 13.

mISP refers to a mobile payment system that is used to confirm user identity via a mobile device. VP started to provide mISP based on fingerprint identification to certain mobile devices in May, going beyond the existing method using passwords. The ser-



The iPhone's fingerprint reader in action.

vice is currently available on nine models – the Galaxy S5, Galaxy S6, Galaxy S6 Edge, iPhone 5s, iPhone 6, iPhone 6+, Vega Secret, Vega Secret Note, and Vega Secret Up.

According to VP, iPhone users constitute 94 percent of the 200,000 people who have used its fingerprint-based mobile payment service from May. On the other hand, the figure for Samsung phone users is only 5 percent, and those who own Pantech phones represent merely 1 percent of the total.

Meanwhile, women in their 20s make up 50 percent of people who used the mobile payment service, and most of them used the service to purchase goods at social commerce sites like Coupang or Ticket Monster. **BK**

## ACTIVELY SEEKING ALLIES

# Korea, China, Japan Mobile Carriers Compete to Lead 5G

by Cho Jin-young

The MWC Shanghai, which is emerging as Asia's largest mobile exhibition, started at the Shanghai New International Expo Centre (SNIEC) on July 15.

A total of 116 ICT companies and 97 mobile carriers around the world will attend the event, titled "Mobile Unlimited." In particular, South Korea, China, and Japan are expected to compete to take the initiative this year in next-generation techs like IoT and 5G. Since those three countries are conducting psychological warfare to be the first to commercialize 5G, competition to lead 5G is likely to intensify through this event.

Three local mobile carriers are reportedly actively seeking global partners that can deliver 5G services, different from existing mobile telecommunications services, through MWC Shanghai 2015. As a result, much attention is being paid to the results of global partnerships for 5G.

KT, the nations' second-largest mobile carrier, built LTE-H WiFi infrastructure capable of delivering data transmission speeds



Kim Sun-tae, managing director of LG U+, poses for a picture after receiving an award for the company's contribution on Voice over LTE, LTE-based voice call connections, on behalf of LG U+ in MWC Shanghai 2015 on July 15.

three times faster than Wi-Fi at the venue, proposing a blueprint for GiGAtopia, a mobile environment connected through super-fast gigabit technology.

SK Telecom set up a largest booth to showcase its smart home and 5G techs, along with three local start-ups. With the opening of the event, the carrier also signed a Memorandum of Understanding with Intel to cooperate on the research and development of 5G tech. SKT and Intel decided to develop a terminal that is usable and compatible in all communications networks in the belief that it is essential to develop this kind of terminal for 5G commercialization.

LG U+ forged a partnership with Huawei to lead 5G standardization. The two companies are planning to cooperate in overall networks, including the development of tech, equipment, and network solutions to prepare for the 5G era, which is expected to begin in earnest in 2020. The carrier is also going to demonstrate how to connect to its VoLTE service, a high-quality voice call service using LTE networks of mobile carriers. 

## UNCOMPETITIVE 5GTECH

# Korea Just Playground for Foreign Equipment Suppliers

There are increasing concerns about the possibility of Chinese and European communications equipment suppliers dominating the Korean 5G mobile communications market.

According to industry sources on July 21, three local mobile carriers and the Ministry of Science, ICT and Future Planning are accelerating efforts to develop 5G tech, but most of them rely on foreign enterprises for development.

The three carriers are actively seeking technical partnerships with large foreign companies prior to 5G commercialization in 2020. KT opened an R&D center for 5G tech inside its research center in Seoul in June, which has a 5G test environment for a 991.5 m<sup>2</sup> complex. The nations' second-largest carrier opened this facility exclusively to Ericsson, Nokia, Alcatel-Lucent, Huawei, and ZTE. SK Telecom and LG U+ also announced their plan to



build a testbed together with foreign telecoms equipment makers.

The local communications equipment industry is worried about the possibility that foreign companies will dominate the local 5G mobile communications market, as in the case of LTE. Mobile communications networks were mainly composed of base stations and repeaters until the 3G era. Large local companies built base stations using foreign equipment, but the local industry was in charge of repeaters.

In the LTE era, however, foreign companies replaced repeaters with remote radio heads (RRHs). The role of RRHs is similar to that of repeaters, but foreign communications equipment suppliers did not disclose the standard technology that connects large base stations and RRHs, thereby virtually dominating the industry. As a result, local small and mid-sized companies that produce repeaters were in imminent danger of collapse. 

## SITUATION REVERSED

# Small Game Makers Becoming Subcontractors to Chinese Firms

by Jung Min-hee



A screenshot from a game created by N2play, a Korean mobile game company.

According to industry sources on June 29, small and medium-sized Korean gaming companies are under attack from a large number of foreign mobile game developers. They are also suffering from large local gaming companies' domination of the market and a delay in the government's support.

The weight of foreign games in the top 50 mobile games in the nation is showing an upward trend for three years in a row from 18 percent in 2013, to 20 percent in 2014, and to 32 percent as of May 2015, according to Nielsen-KoreanClick. The upward trend can be ascribed to the growing penetration of foreign game developers into the local market and local gaming companies' efforts to distribute foreign games.

Among foreign game developers, Chinese offensive is the most noticeable. In addition to establishing local branches in the nation, Chinese gaming companies like Longtu Games and Locojoy entered the Korean market this year by acquiring local companies listed on the KOSDAQ market.

An increasing number of local gaming companies are also importing popular mobile games in China. Prime examples are Samgumho and Master Tanker 2 imported by Nexon, Crouching Tiger Hidden Dragon and Reversworld imported by Netmarble Games, and Webzen's Muorigin. Hence, it is getting more difficult for small and medium-sized game developers to create new games.

Chinese companies used to be subcontracted by Korean firms to develop games, but the situation has reversed.

A head of a local gaming company remarked, "Two years ago, the weight of games made at the request of foreign firms was minimal, less than 10 percent of the total," adding, "But the pro-

portion of outsourcing game projects from large Chinese game developers such as Tencent, YuuZoo Corporation, and Giant Interactive amounts to 40 percent this year."

The current market structure of mobile games that is virtually dominated by large gaming companies is also making small and mid-sized game developers struggle in the market. As of June 29, 50 percent of the top 10 mobile games and 60 percent of the top 5 mobile games on Google Play all belong to Netmarble Games, the nation's largest mobile game developer. Three games in the top 5 are owned by Netmarble Games's affiliates such as Netmarble ST, Netmarble Nexus, and Netmarble N2. The rest are Chinese or European games. According to Nielsen-KoreanClick, foreign games made up 18 percent of mobile games in the top 50 as of May 2013, a year-on-year decrease of 24 percent.

An industry source pointed out, "Local small and mid-sized game developers are increasingly dependent on Chinese capital to survive. So, I think that at the end of the day, most of them will become subcontractors who only develop games demanded by Chinese firms."<sup>BK</sup>

## FLOURISHING ABROAD

# Korean Game Makers Take Smooth Root in Global Market



A screenshot from the popular mobile game "Everybody's Marble," by Netmarble.

South Korean game developers are achieving success in the overseas market. The games are seeing long-term results and meaningful performance in terms of cumulative sales. Domestic game makers have entered the overseas market to avoid the limits of the domestic market and the government's excessive regulations, and it's working. They are expanding sales and securing long-term popularity in the overseas market, and expectations are growing that it could be the signal for Korean game makers to succeed in making a soft landing in the global game market.

According to industry sources on July 12, Netmarble Games' mobile game "Everybody's Marble" posted 400 billion won

(US\$353.95 million) in global cumulative sales as of the first quarter of this year, ranked in 10th place in terms of global, combined mobile game sales of the Google Play Store and Apple's App Store. The success was largely due to its high popularity in the markets of China, Japan, Taiwan, Thailand, Indonesia, and Korea.

According to a survey conducted by mobile analytics company App Annie and market research institution IDC, it was the only Korean mobile game which made the top ten in terms of sales.

Even though two years have passed since "Everybody's Marble" was launched in June 2013, it is still recording a high number of downloads and sales at home and abroad.

Also, it's been a year since Com2uS' role-playing game (RPG) "Summoners War," which Google mentioned as a successful case, hit the market, but it is still in the high ranks of sales in the app markets of 80 countries across the world.

Industry watchers say that domestic mobile games are passing the limits of short-cycle mobile games and becoming popular long-running games that bring long-term sales. Since the genres of the games are not one-sided, it is possible to implement a diversification strategy.

All successful companies in the global market have one thing in common - they have learned about the local market and culture by establishing overseas branches.

Com2uS has set up its branches in China and Japan in 2003 and the U.S. in 2005, accumulating the necessary expertise to tap into the global mobile gaming market. This move puts the company in the position to carry out several custom marketing campaigns to promote "Summoners War" in the U.S. and Japan, industry sources said.

Recently, there is a growing number of companies that look up to these more successful leading companies. Korean mobile publisher Gamevil has opened an office in Berlin, Germany, called Gamevil Europe, in order to expand into Europe. Establishing new branches in Singapore and Taiwan as well last year, the company will provide local customer service and support for languages of up to seven European countries including Germany, France, and Russia, starting aggressive marketing.

In Europe, Gamevil's mobile RPG "Monster Warlord" is enjoying continuing popularity, and "Kritika: The White Knights" and "The Dragon Blaze" are also winning positive responses. **BK**

## NO MORE MOBILE FUN

# Mobile Game App Users Decrease for 5 Consecutive Months



The number of mobile game app users has decreased for the first time in the last two years. It clearly shows stagnation in the growth of the domestic mobile game market.

According to market research institution Nielsen Korea on July 14, the number of mobile game app users with Android OS stood at 19.95 million last month. The figure has decreased by 850,000, or 4.11 percent, from the 20.81 million of June last year. It is the first time in the last two years that the monthly number of game app users has shown a year-on-year decrease.

In particular, the number of game app users is on the decrease this year, even though the total number of mobile app users is steadily increasing. This year, the figure dropped from 21.66 million in Jan. to 21.58 million in Feb., showing a 0.4 percent decrease. Then, the figure decreased by 1.3 percent to 21.29 million in March, by 0.6 percent to 21.16 million in April, by 3.8 percent to 20.36 million in May, and by 2 percent to 19.95 million in June. The number of game app users has decreased for five consecutive months.

In contrast, the number of total mobile app users has increased for four consecutive months, from 29.74 million in Feb. to 30.35 million last month.

This decrease in users is happening despite an overflow of mobile game apps in the market. According to data from the Game Rating and Administration Committee, the number of mobile games that market operators and the committee rated for the domestic market increased by 5.6 percent, from 360,000 in 2012 to 380,000 in 2013. Also, the figure grew as much as 37 percent, to 520,000 last year from a year earlier.

Accordingly, competition among game makers based on large-scale marketing campaigns to win users will continue to grow in the mobile game market. In fact, game makers have started marketing their products through TV commercials in earnest in the domestic mobile game market from the second quarter last year, and the cumulative TV commercial costs amount to a whopping 91.7 billion won (US\$80.29 million) as of the first quarter of this year. **BK**

# INDUSTRY



## MARKET INSIGHT

### Unexpected Factors Driving Mobile Commerce Boom in Korea

by Marie Kim

Overall foot traffic to many mall-based retailers has been declining for years, and according to local media in Korea, apparel store traffic hit its lowest mark in 17 weeks in mid-June thanks to the MERS panic. Prior to that, overall domestic demand has been dropping in proportion to rising household debt and global economic uncertainty. With the threat of MERS, households seemed to tighten their wallets.

However, the decline of the Korean pastime of shopping at the mall isn't necessarily a bad sign for other businesses. While most mall-based retail businesses struggle to survive the declining economy, online transactions and mobile shopping are thriving. Everyone knows

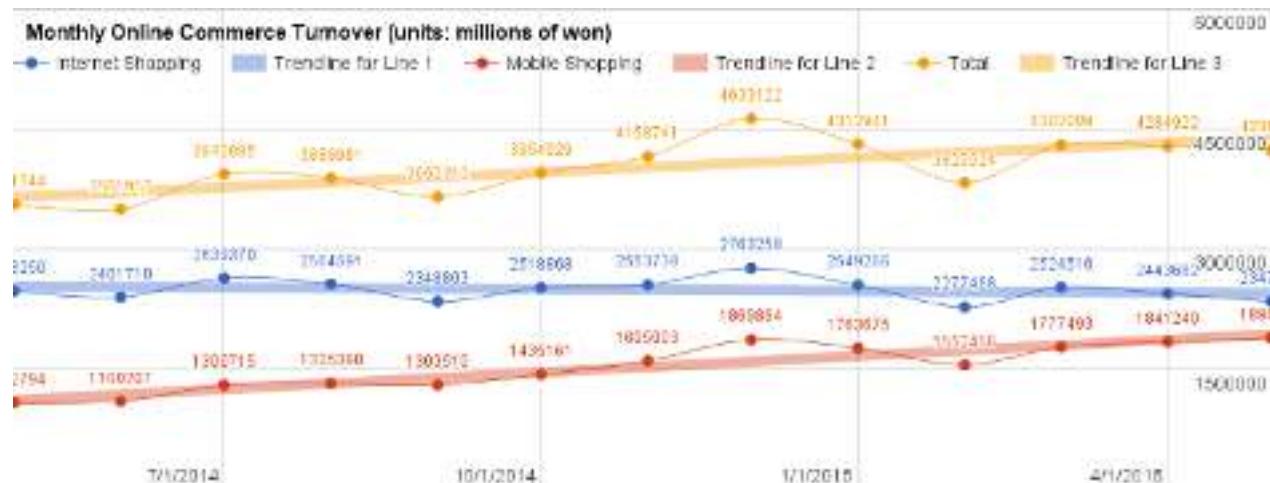
that e-commerce is a constantly-growing segment of the larger retail and commerce landscape, but most probably don't know that mobile commerce is growing at an even faster rate.

According to the Korea Chamber of Commerce & Industry (KCCI), South Korea's mobile market has more than doubled in value every year since 2010. Using smartphones to buy products and services has become so commonplace that it represents nearly one-third of all web-based sales. In a 2014 study, Bloomberg estimated that the mobile market would reach 800 percent growth by end of 2015, compared to the initial period.

The proportion of sales from mobile

shopping to all web-based shopping continues to rise, too. The turnover of online shopping during Q4 last year was 12.7410 quadrillion won (US\$11.1378 trillion), a 21 percent increase from the same period the previous year. In Q1 2015, the proportion of the turnover of mobile shopping to that of all web-based shopping was 107 percent, which translates into an increase of mobile shopping and a turnover of 4.8760 quadrillion won (US\$4.2636 trillion). In comparison with Q4 2014, the turnover of all web-based shopping in Q1 2015 increased by 11.3 percent, while mobile shopping increased by 24.9 percent.

Among several local companies, Coupang and Wemakeprice are prominent in devoting a large proportion of



A graph of monthly online commerce figures over the past year. The trend of Internet shopping (blue) is decreasing, while mobile shopping (red) is increasing.

their business (80 percent) to mobile shopping. Other mall-based retailers are scrambling to adapt to the changing landscape of the retail industry.

According to local weekly magazine Maeil Kyung (MK), in the case of Homeplus, the proportion of mobile sales to all web-based sales rose to over 50 percent in April last year. Sales revenues from mobile shopping marked a 112 percent increase from the previous year. The number of app downloads reached over 4 million.

### Mobile Behavior

But why is mobile shopping growing so quickly? To better understand these trends, one needs to understand the behavior of people doing mobile shopping. For instance, it turns out that consumers look primarily to their phones to shop for clothing and fashion-related products (72.3 percent), household goods and diapers (44.8 percent), car accessories (30.1 percent), consumer electronics (30.3 percent), and communication equipment (27.6 percent).

The most common method of payment for mobile shoppers is paying by credit card (53.2 percent), followed by so-called simple payments or a specific app-based payment method (16.3 percent), paying by debit card (14.5 percent), pay-

ing via phone bill service (8.4 percent), and wire transfer payments (7.6).

Another insight into this trend is the important distinctions between mobile shopping behavior and online or in-store behavior, especially among women.

Mobile-channel shoppers have a distinct demographic in South Korea. According to data compiled by MK, women account for 60 percent of transactions. Additionally, most are in their 30s and are likely to have preschool children.

They are also, somewhat surprisingly, likely to be full-time housewives. There has been a widespread assumption that mobile shopping is dominated by busy working moms. In fact, working moms spend more time in front of a PC, mostly at work, while housewives are more likely to use their smartphones to shop.

In contrast to the bargain-searching mentality that dominates online shopping, mobile shoppers prioritize intuitively easy search and convenient shopping experiences. According to research conducted by McKinsey & Company, more than 60 percent of South Korea's mobile shoppers cited convenience as their top priority, compared with 44 percent of online shoppers. Mobile shoppers want quick satisfaction. Their purchasing decisions are often governed by impulsive or emotional factors – which encompass product cate-

gories including apparel, fashion accessories, and shoes – or habit, such as buying groceries and kid/baby items.

Companies like Coupang have noticed this trend, and have aggressively targeted mobile-savvy young moms by offering baby gear such as diapers at low prices in their mobile app. In addition, by launching its own delivery system called Rocket Delivery in 2014, Coupang has been able to provide faster delivery services for its shoppers at no additional charge. "We introduced Rocket Delivery to send goods to customers in a faster and safer manner across the country. This revolutionary service has greatly boosted customer satisfaction," a Coupang spokesman said. The company currently operates eight warehouses across the nation and employs about 1,000 delivery people to realize the fast and convenient shopping experience for regular customers.

Other retailers, both online and offline, could take notes from the current booming m-commerce market in Korea. Namely, it is essential to note the unique demographics and characteristics of the majority of mobile shoppers who drive the boom in mobile commerce in Korea. Also, one should note that fast, convenient delivery is an integral part of a successful business strategy. 



## PRECARIOUS LEAD

# Korea Maintains Top Position in 8 Products, Services

by Jung Suk-yee

Eight Korean items occupied the top spot last year in the global markets for 50 major products and services. Even though the number of export items occupying a top ranking position in world markets increased in 2014 compared to 2013, the gap with China and Japan in major items like smartphones is narrowing.

A total of eight locally-made products and services held the top spot in world markets, including shipbuilding, smartphones, small and mid-sized LCD panels, and lithium-ion batteries, according to a report on the share of global markets for major products and services in 2014

published by the Nihon Keizai Shimbun on July 5. The nation additionally nabbed the top position in shipbuilding and small and mid-sized LCD panels last year, an increase of two items from 2013. Out of 50 items, the U.S. ranked first with 16 items, and 10 items were from Europe. The number for Japan was 9, one more than Korea's rank, while China had 6 top-ranked products and services. The U.S. and Japan saw the number decrease by two items compared to the previous year, but China maintained the previous year's level.

Data shows that Korea's position in the global market is strengthened, but some of

the locally-made products and services are likely to lose the number one position in the market within years.

In the case of smartphones, the market share of Samsung Electronics (24.5 percent) and Apple (14.8 percent) both declined by a small margin, but Chinese companies are closely following the two dominant players. Specifically, Lenovo, the third-largest handset maker, comprised 7.2 percent, a year-on-year growth of 2.7 percent. Huawei, which was in 4rd place, captured 5.7 percent of the global smartphone market in 2014, up 0.9 percent from a year ago. Sam-

sung's share has continued to drop, after the number exceeded 30 percent in 2013, which was its best year.

As for lithium-ion batteries, Samsung SDI is maintaining its iron-fisted grip on the market, but it is chased by Panasonic's electric cars. According to market research firm B3, Samsung SDI, LG Chem, and Panasonic account for around 70 percent of the lithium-ion battery market. Among those companies, the Japanese firm is jointly conducting a project to build the Gigafactory, a US\$5 billion structure aimed at annually producing 500,000 lithium-ion batteries by 2020 in partnership with Tesla Motors.

When it comes to large LCD panels for TVs, Chinese display makers are highly likely to snatch the top spot from their Korean rivals in the market, as the former is greatly increasing the supply of panels to meet domestic demand. The Korea Display Industry Association said that the weight of Chinese LCD panels for TVs approached 40 percent last year, and the number will surpass 50 percent this year.

Although the nation reclaimed the top position in the global shipbuilding market in 2013, competition with China and Japan is still intense. But the good news is that LG Display constituted 18.1 percent of the small and mid-sized LCD panel market, which placed the firm in the number one position, beating Japan Display (16.0 percent) and Sharp (15.6 percent).

A Korean research institute's data also shows that Korea's competitiveness in the communication and information device sector, such as cellphones and laptop PCs, has overtaken by China in the Japanese market, and the country urgently needs to recover its international competitiveness.

Korea Economic Research Institute (KERI) announced on June 29 that there are warning signs ahead for Korea's information technology equipment industry in a report called "Korean Information Technology Equipment Industry's International Competitiveness Comparison of Korea, China and Japan and Policy Pro-

posals."

After an analysis of the international competitiveness index of 193 items in the information, communication, parts, and broadcasting equipment industry from 2009 to 2014, the report said that Korea's index is lower than that of China in the communication and information equipment sector, and lower than Japan in the parts sector, including system semiconductors, on the trade between Korea, China, and Japan. Also, the trend becomes more permanent.

In particular, Korea's exports of cellphones and LCD panels, the major export items of the country, are overtaken by China in six years in the export competition to Japan.

China has a comparative advantage in various sectors in the Japanese market, including the cellphones, LCD panels, laptop PCs, secondary storage, multimedia card, wireless communication device parts, photoelectron, and broadcasting equipment sectors.

The trend is more noticeable in the cellphone and LCD panel sectors. According to KERI's comparative advantage index, Korea's figure in the cellphone sector decreased from 5.36 in 2009 to 1.65 in 2014, while China's figure increased from 2.04 in 2009 to 2.09 in 2014.

Also, the Korean index in the LCD panel sector significantly dropped from 18.47 in 2009 to 2.57 in 2014. However, the Chinese index, which had a large gap with Korea in 2009, grew from 3.74 in 2009 to 13.4 in 2014, increasing by 3.5 times.

The report said that Korea needs to upgrade its global production system and network in order for domestic companies to be specialized in high value added production process in the reorganization of production sharing structure in Northeast Asia.

In order to do so, the country needs to upgrade its global value chain by raising China's status from the existing specialization structure using it as its global production base to an intermediate cooperative partner, suggested the report.



Also, it stressed, "As the export structure of the domestic information technology device sector has changed from complete products to parts, Korea should promote exports of high value added key components by strengthening core technology development."

The KERI also advised that Korean consumer electronics manufacturers sharpen their competitive edge by means of high-end products using the Internet of Things and advanced sensing technology with Chinese manufacturers growing much faster than they are.

According to its recent report, Chinese home appliances and machinery manufacturers' revealed comparative advantage (RCA) increased from 1.86 to 2.1 between 2009 and 2013, while that of Korean companies edged up from 1.75 to 1.78. During the same period, the RCA declined from 1.59 to 1.56 for Japanese.

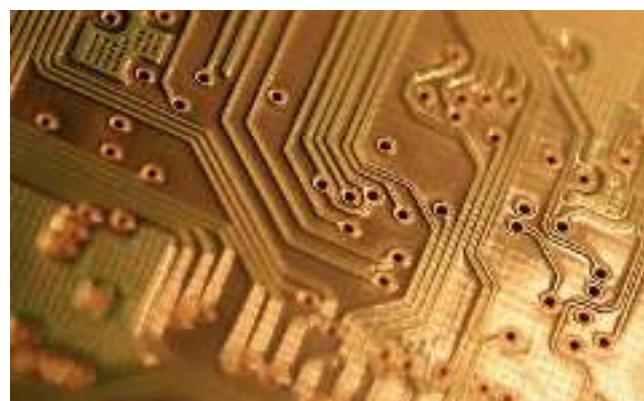
The report also pointed out that the ratio of electronics exports to total exports soared from 2 to 32 percent for China between 1992 and 2014, whereas Korea's figure went up by no more than 1.4 percentage points to 6.2 percent, and Japan's dropped from 19.6 to 5.9 percent.

The institute mentioned an increase in yuan-based trade settlements resulting from the internationalization of the Chinese currency as a big change to come. These days, the Chinese yuan is gradually taking the place of the U.S. dollar in trade with China. Yuan-based payments between Korea and China accounted for 0.8 percent of the total yuan-based payments in 2012, but the percentage rose to 1.8 in the first two months of 2013. BK

**TOO MANY CHIPS**

## Supply Glut Looming Large in Semiconductor Market

by Cho Jin-young



The global semiconductor market is expected to slow down for a couple of years due to the sluggish demand for PCs and smartphones. Under the circumstances, Samsung Electronics and SK Hynix are increasing their DRAM supply volumes, signaling a supply glut from the second half of this year.

According to industry sources, Samsung Electronics is currently producing 20-nm class DRAM in quantity in its Line 17 fab located in Hwaseong City, Gyeonggi Province. At present, an average of 30,000 to 40,000 wafers are input into the fab a month, equivalent to 10 percent of Samsung Electronics' total DRAM production. The company is planning to step up the volume until next year. At first, it was going to make system-on-chip products there, but changed its plan due to the presence of Chinese and Taiwanese fabless firms in the application processor market.

SK Hynix produces DRAM in its M14 fab in Icheon City, Gyeonggi Province, from the third quarter of this year, too. The M14 fab, which is scheduled to take the place of its DRAM-producing M10, is expected to have a monthly capacity of 15,000 wafers at the end of this year.

In the meantime, the global DRAM market is facing oversupply. Market research firm Gartner recently forecast that the semiconductor market would record a growth of 2.2 percent this year and 1.3 percent in 2016, while the size of the IoT semiconductor segment would be limited to US\$43.5 billion, 10 percent of the market, in 2020 to fall short of expectations.

The long-term outlook is even worse. Samsung Electronics'

facilities in Pyeongtaek City, Gyeonggi Province that will be put into operation in 2017 are likely to become the largest memory manufacturing plant in the world, and Chinese companies are expected to become fully operational in the global memory semiconductor industry within five years. Tsinghua Unigroup recently declared that it would take over Micron Technology to set foot in the industry.

"The Chinese government is planning to invest US\$20 billion in the sector so that Chinese firms can have a greater presence there," Gartner explained, adding, "Although this itself is enough to jolt the global market, it seems that the total investment will be raised up to US\$100 billion by private-sector investors in the end." JK

**IMPERIAL MOVE**

## Samsung, SK Hynix on Alert for China's Possible Takeover of Micron

by Cho Jin-young



As the news broke that China will jump into the memory semiconductor business by taking over U.S.-based Micron Technology Inc., the fourth largest semiconductor manufacturer in the world, Samsung Electronics and SK Hynix have been put on emergency alert. The report has not been confirmed yet, but there are increasing signs that China will start the memory business. Accordingly, there is growing concerns that it could jeopardize the dominant position of Korean companies in the memory sector.

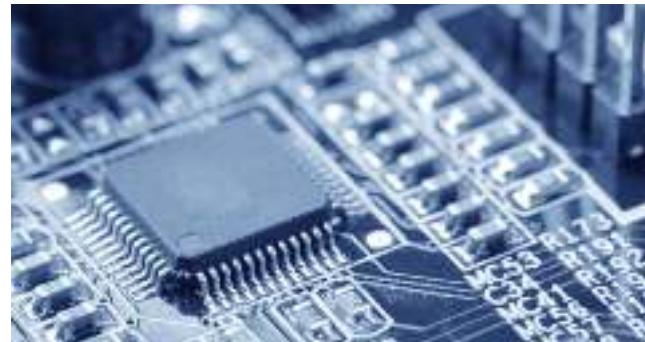
According to foreign press reports on July 14, Chinese state-owned semiconductor chip designer Tsinghua Unigroup Ltd. offered to buy U.S. memory chipmaker Micron Technology Inc. for US\$23 billion (26.2 trillion won). If the M&A is completed, the deal would be the largest Chinese takeover of a U.S. firm. Micron is currently suffering from a downturn in business due to the drop in the price of PC DRAM, its main product. Tsinghua

Unigroup is a state-owned company set up by academics at the elite Tsinghua University in 1998. It has become China's largest semiconductor company by acquiring China's two major mobile chip producers in 2013, Spectrum Communications and RDA Microelectronics.

Industry watchers believe that Tsinghua Unigroup's takeover of Micron is unlikely to happen. A Tsinghua Unigroup spokesman said, "The deal is still under discussion," while a Micron spokesman said, "The company has not received a buyout offer," and declined further comment. A low offer price is another reason. Tsinghua offered US\$21 per share for Micron, which is at a 19.3 percent premium to stock close on July 13.

With the takeover offer, however, China is expected to enter the memory semiconductor market, and the market power of Samsung Electronics and SK Hynix could be on the line in the long term.

According to local industry sources, China's leading display company BOE Technology Group is also considering whether or not to tap into the memory market this year. Hyundai Securities analyst Park Young-joo said, "I don't think the Committee on Foreign Investment in the U.S., a panel of representatives from more than a dozen departments and agencies across the U.S. government, will allow a Chinese company to acquire Micron." However, we should keep an eye on the movement of Chinese companies to advance into the semiconductor business." The Chinese government has already been seeking opportunities for expansion into the memory market. As the country imports memory chips worth more than US\$230 billion (265 trillion won) a year, China plans to begin home production of the products without fail. BK



cess, the TSMC is also thought to be skipping 14 nanometers and going direct to a 10-nanometer process.

According to local media reports in Taiwan on July 8, the TSMC will start risk production in its 10-nanometer processing lines in the second quarter of next year and mass production as early as the second half of next year. From this period, the company will also discuss cooperation in earnest with its largest customers, Apple and Qualcomm.

Risk production is practically the final phase of testing, and the process to raise the yield rates for full-scale mass production. For memory semiconductors, a company can sometimes actually sell some general-purpose products that have gone through risk production. For system semiconductors, however, it can take more time to mass produce, since they should fit within the standards of graphics processor units (GPU) and modem chips.

Once the 10-nanometer foundry process is adopted, the clock rates of application processors (AP) will improve up to 20 percent, and power consumption will drop as much as 40 percent, compared to existing 14-nanometer FinFET processes.

Industry watchers say that the TSMC could take an advantageous position to win orders for Apple's next-gen "A10" AP for the iPhone before its competitor Samsung Electronics, if the TSMC breaks through the phase of risk production before its competitor. It means that whichever company that stabilizes its 10-nanometer process first will win the contract.

At the moment, the TSMC is a step ahead of Samsung Electronics. The company has invested US\$1 billion (1.14 trillion won) in order to introduce its 10-nanometer process, as it fell behind Samsung Electronics in the 14-nanometer FinFET process race and lost major customers, including Apple.

In contrast, Samsung Electronics announced in April during the result announcement conference call that its 10-nanometer foundry process is possible from the end of 2016, and there is still no change in the plan. The company is planning to expand its market share first of its existing 14-nanometer FinFET process.

However, the possibility cannot be ruled out that Samsung Electronics will move up the mass production date, as the amount of supply to Apple will decide the performance of Samsung's System LSI division. Notably, the company unveiled an actual 12-inch wafer using its 10-nanometer process in May, which was an unusual move for the company. BK

## SMALLER AND SMALLER

# Competition between Samsung & TSMC in 10-nm FinFET Market Heats Up

—  
by Cho Jin-young

Samsung Electronics is getting nervous at the news that Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) will start testing the mass production of a 10-nanometer FinFET process next year. Just like Samsung's strategy last year of successfully securing orders from Apple and Qualcomm by bypassing the 20-nanometer process and going straight to a 14-nanometer pro-

**PATENTED FLEXIBILITY**

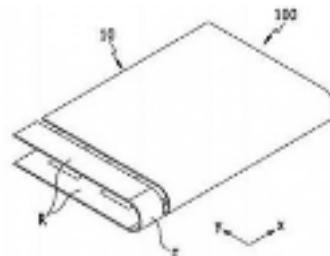
## Samsung Awarded Patent for Flexible Displays for TVs

by Cho Jin-young

Samsung Electronics was granted a patent for bendable and flexible displays for TVs and tablet PCs. The patent was filed with the United States Patent and Trademark Office (USPTO) last year.

The patent is receiving a lot of attention in the industry, since it is for both OLED and LCD displays.

According to the USPTO on July 9, Samsung Display was granted a patent for LCD and OLED displays (Patent US 9078362) on July 7 this year, after first filing it on May 1, 2014. The tech-



nology is about making flexible display panels and circuit boards.

This patent is likely to play no small part in developing foldable smartphones that Samsung is planning to release in 2016. It will be possible to use this patent for TVs and tablet PCs that are 8" or more, according to Samsung in a document submitted to the USPTO.

It is most notable in that a way to make foldable LCD displays is apparently possible, although it has been difficult to do so. [BK](#)

**QUALITY VS. QUANTITY**

## Korean LCD Industry to Beat Chinese OLED Panels

As Chinese LCD makers are expected to outperform Korean rival companies in 8th-generation panels from next year, Samsung Display and LG Display apparently intend to expand their facilities for OLED panels.

According to industry sources on July 9, Samsung Display started to operate its A3 line for small and medium-sized flexible OLED displays last April, planning to continue investment in its A2 line for small-to mid-sized OLED panels within the year. The decision is attributable to the belief that it will be more beneficial to reduce cost by changing existing equipment in the A2 plant so that it can be used to make flexible OLED panels, rather than making a second investment in its A3 line right away.

The A3 line, which was already invested in before, can produce up to 30,000 units a month. A source close to Samsung Display explained, "The operation of the A3 plant is still in its early stages. Since there is still enough free space, the plant will have much more production facilities in the mid-long term."

LG Display is also cautiously preparing to enlarge its OLED production facilities. Some in the industry recently said that the company will invest up to 900 billion won (US\$796 million) to build a factory for small and mid-sized OLED panels in Gumi, North Gyeongsang Province. However, a spokesperson for LG Display said, "We are considering making an investment, but we haven't decided yet."



The reason for the two companies' focus on investing in OLED production facilities lies in the fact that while Chinese LCD makers are contributing to oversupply in the market, there is a sluggish demand for TVs, PCs, and mobile devices.

Market research firm IHS iSuppli recently predicted that Chinese LCD manufacturers would beat Korean competitors in 8th-generation panels next year. Chinese companies are expected to produce 1.2 times as many 8th-generation OLED panels as Korean firms in 2016. China's 8th-generation OLED display production capacity is currently 86 percent that of Korea.

As for OLED panels, the possibility of losing market dominance to Chinese LCD makers for a short period of time is widely acknowledged to be minimal due to the gap between Korea and China in technology. Even though the dependence of LCD manufacturers on part assembly is relatively high, OLED panels are not easy to make, since it is necessary to vapor-deposit organic or non-organic material on a glass or plastic substrate. Therefore, it is difficult for latecomers to get a yield rate of 98 percent with OLED panels.

The OLED panel market, which was estimated at US\$8.23168 billion in 2014, will grow from US\$11 billion in 2015 to US\$12.63481 in 2016, surpassing US\$20 billion in 2020, according to market research firm DisplaySearch. [BK](#)

**MAGIC MIRRORS**

## Samsung Display Hurries to Mass Produce Mirror OLEDs



**A**s Samsung Display has decided to bring forward the mass production of its industry's first Mirror and Transparent OLED display panels. It will start production in its A2 line from this year.

According to industry sources and the press in Hong Kong, the Chow Sang Sang Group, which has numerous large jewelry stores in Hong Kong and Macao, will introduce commercial displays using Samsung Display's Mirror OLED panel technology in its stores. The Chow Sang Sang Group runs nearly 190 jewelry stores in China and Hong Kong.

Samsung Display's Mirror OLED display panel has 75 percent reflectance, which is similar to actual mirrors. It will provide a digital viewing platform to help consumers vividly see themselves wearing the necklaces and earrings that they might wish to buy without actually wearing them. This augmented reality pro-

gram will be created when Samsung's Media Player is integrated with Intel's Real Sense Solution.

Existing mirror LCD displays had about a 50 percent reflectance level, so it delivers only limited visibility. However, the Samsung Mirror Display delivers an exceptionally high 100,000:1 contrast ratio and a much faster response time at less than 1 ms than LCD transparent panels (4,000:1, 8 ms), as well as high reflectance levels.

Securing its client companies in advance, Samsung Display is moving up the mass production of its Mirror OLED display panels. The first customer is the global digital marketing agency Mirum. Mirum will sell commercial displays using Samsung's new technology under the name "Magic Mirror 2.0" to fashion and jewelry companies, including the Chow Sang Sang Group. 

**FRENEMIES FOREVER**

## Samsung to Supply OLED Displays for Next Apple Watch



**T**ogether with LG Display, Samsung Display is expected to supply organic light-emitting diode (OLED) displays for Apple's next-generation smart watch.

LG Display has been the sole supplier of OLED displays for the Apple Watch, which was released in April. Apple has, however, reportedly decided to add Samsung Display to its vendor list for the OLED devices.

The move seems to be a part of the strategy of the U.S.-based IT giant that usually makes contracts with two or three vendors to secure a stable supply of its parts for smart devices. Apple

cannot but make such a decision, as LG Display and Samsung Display are the only manufacturers that can produce the flexible OLED displays.

Apple has recently started working with the Korean display manufacturers to develop flexible OLED displays for its next-gen smart watch, which is expected to be lighter and slimmer than the current Apple Watch.

Annual sales of the Apple watch may reach 10.5 million units this year, according to market research firm Pacific Crest. 

**COVERING OVERSEAS DECLINE****Domestic Car Sales Showed Some Recovery in June**

by Jung Min-hee



The Hyundai Motor Group, GM Korea, Ssangyong Motors, and Renault Samsung Motors sold 135,218 cars in the Korean market in June to record an 11.5 percent increase from a year ago and an 11.3 percent increase from a month earlier. It was recreational vehicles that led the growth. For example, the sales volume of the Hyundai Santa Fe increased by 3,615 to 9,073 between May and June this year.

Hyundai Motor Company broke the 60,000 mark in three months. Kia Motors sold 45,010 cars last month to show a growth of 26.8 percent year on year. The sales volume of the Kia Sorento, which made its debut in August 2014, amounted to 7,212 and reached a new monthly high.

Ssangyong Motors' volume added up to 8,420 in June, the highest since 2005 and 63.3 percent more than that recorded in June 2014. The Tivoli was chosen by 3,630 customers and accounted for 43 percent of the company's sales in the domestic market. GM Korea sold 12,233 cars, 0.8 percent more than a year ago, while Renault Samsung Motors' volume declined by 20.7 percent year-on-year to 6,753.

In the meantime, Hyundai Motor Company exported 345,224 cars in June, 112,653 of them manufactured in Korea. The exports decreased by 2.2 percent compared to the same period last year. The sales from its overseas plants declined, although the shipments from Korea increased. Specifically, the former decreased by 7.6 percent from 251,680, whereas the latter showed an 11.3 percent increase from 101,240. The figures were 100,280 and 118,637 for Kia Motors, respectively. The combined volume increased by 4.3 percent from a year earlier. Although the former edged down by 4.0 percent, the latter increased by 12.5 percent.

GM Korea exported 42,953 cars in June this year, 9.3 percent and 1.1 percent more than a year and a month ago, respectively. Renault Samsung Motors' export volume reached 10,211, showing a 17.2 percent decrease from a month ago and a 245.4 percent increase from a year earlier. Ssangyong Motors' totaled 3,592, dropping by 4.9 percent and 40.3 percent from a month and a year earlier, respectively. **BK**

**AUTO INVASION****Foreign Cars Exceed 6% of Total Local Registered Vehicles**

The number of imported cars in Korea exceeded 6 percent of the total registered vehicles this year. The number had broken the one million mark last year.

According to the Ministry of Land, Infrastructure, and Transport, the number added up to 1,245,157 as of the end of June to show an 11.8 percent increase in comparison to that at the end of 2014. Likewise, the ratio went up from 5.5 percent to 6.1 percent during the same period. These figures are conspicuous, in that the total number of vehicles registered in Korea edged up by 2.14 percent from 20,117,955 to 20,548,879.

When it comes to newly-registered vehicles, the number of Korean cars increased by just 3.5 percent or 794,000 cars between June 2014 and June this year, whereas that of imported cars recorded a growth rate of 30.1 percent or 137,000 cars.

The number of imported cars in Korea had been much less until 2002. However, it continued to increase since then and exceeded one million last year, when the Korea-EU FTA became effective for zero tariffs on cars with an engine displacement of at least 1,500 cc. The popularity of Japanese cars increased a lot based on the weak yen, too.

In June this year, in particular, BMW Korea sold approximately 5,500 cars in the Korean market. Its sales volume was 4,649 in May 2015 and 3,358 in June 2014, respectively. This is the first time that a non-Korean automaker sold more than 5,000 cars in Korea in a single month. As of the end of May this year, BMW accounted for 19.32 percent of the Korean imported car market, second only to Mercedes Benz by a margin of only 0.28 percentage points. **BK**

## EXPANDING OPTIONS

### Cooperation on Eco-friendly Car Charging Infrastructure



POSCO ICT, in cooperation with Hyundai Motor, will begin making full-fledged efforts to construct charging infrastructure for environmentally-friendly vehicles such as plug-in hybrid vehicles and electric vehicles.

The company announced on June 28 that it has signed a memorandum of understanding (MOU) with Hyundai Motor to build eco-friendly car charging infrastructure. Hyundai Motor has green car technologies, and POSCO ICT has practical experiences in the charging infrastructure sector. With the MOU, the two companies plan to form a close partnership in order to take the leading roles in expanding the domestic eco-friendly vehicle market.

There is further significance of the MOU, as charging stations will be established in public facilities such as large discount stores and theaters, which provides people with more access, unlike the existing charging stations installed in public institutions that are less accessible, said the company. Also, Hyundai Motor plans to release its exclusive plug-in hybrid cars in the future, following the new Sonata Plug-in Hybrid next month. It is expected to accelerate the introduction of plug-in hybrid vehicles in the country.

Under the agreement, POSCO ICT and Hyundai Motor will build 120 charging stations using Hyundai Motor's own unique design in large discount stores, department stores, and theaters within this year. Also, POSCO ICT will secure the construction sites, run the stations, and perform maintenance tasks on the stations.

Moreover, POSCO ICT will allow Hyundai Motor's consumers to use an additional 120 charging stations for more convenience, which are scheduled to be constructed within this year, as well as its 180 stations in Seoul, Gyeonggi Province, Busan, and Jeju Island as the first private operator. Currently, POSCO ICT has already built and is operating 180 charging stations for electric vehicles in Seoul, Gyeonggi Province, Busan, and Jeju Island. bk

## DEFECTIVE PRODUCT

### GM Korea Tops List of Car Recalls amid Sharp Increase



GM Korea's plant in Gunsan, South Korea.

A total of 425,212 cars were recalled due to safety-related deficiencies during the January-June period, with 335,040 local manufactured cars in 20 models and 90,172 imported cars in 202 models, according to the Car Deficiency Report Center under the Korea Transportation Safety Authority (TSA) on July 8.

The number of recalled vehicles increased by 25.7 percent, or 86,810, from the 338,402 posted in the same period last year. The number of recalled models rose to 222 from 168 year-on-year, with local brands at six and imported ones at 162.

By carmaker, GM Korea topped the list by recalling 217,884 cars, including Lacetti Premieres, Orlando, Malibus and Alpheons, accounting for almost half of all vehicles recalled in the country.

An official at GM Korea explained, "The company has taken a policy to voluntarily recall vehicles with any faults since the ignition switch-related recall occurred in the U.S."

Hyundai Motors trailed GM by recalling 217,884 vehicles including Avantes, Grandeur hybrids, Genesis, and i30ds during the period. Kia Motors also recalled 53,721 cars.

Of foreign carmakers, Mercedes-Benz ranked first by recalling 34,756 including some E-series, followed by BMW with 10,238, Ford with 5,594, Chrysler with 3,867, and Nissan with 3,827.

An official at the TSA said, "The number of cars recalled has substantially increased since the middle of last year," adding, "The recalls are expected to reach 1 million this year." bk



## DOMESTIC INNOVATION

# KOGAS to Design LNG Tank with Local 3 Big Shipbuilders

by Jung Min-hee

The Korea Gas Corporation (KOGAS) has joined hands with the nation's three major shipbuilders – Hyundai Heavy Industries, Samsung Heavy Industries, and Daewoo Shipbuilding & Marine Engineering – to establish the nation's first specialized company to design liquefied natural gas (LNG) carrier tanks.

A senior government official said on July 20, "In July, KOGAS and the top three shipbuilders have asked for permission to build a joint venture company. The government's approval will be given sooner or later, so they may start working on processes for the establishment as early as next month."

In a bid to reduce uncertainty at the inception, the joint venture will be estab-

lished in the form of a subsidiary, while KOGAS holds more than 50.1 percent shares in the company. The three shipbuilders will own a stake according to the ratio of investment each. KOGAS and the three shipbuilders are planning to set up the joint venture in Dec. and to privatize it by selling its shares to the public stage by stage when the company becomes a major player in the market.

Until now, the top three shipbuilders have had to pay royalties of 10 billion won (US\$8.66 million) per vessel to France-based engineering company GTT, which monopolizes the market, since they did not have a tank design technology. The three shipbuilders are said to pay annual royalties worth 300 billion won

(US\$259.74 million) to GTT in order to use its technology.

Once the company is jointly founded by KOGAS, a big buyer in the global gas market, and the nation's largest shipbuilders, the global LNG tank design market, which is currently monopolized by French companies, is expected to face a great upheaval.

An LNG storage tank is a specialized type of storage tank used for the storage of natural gas, which is condensed into the liquid state by chilling it to -162 degrees Celsius to reduce it to one six-hundredth of gaseous volume. It is also often called the "heart" of an LNG carrier. If the temperature within the tank varies by even one degree, natural gas will vaporize or the steel plates will break from freezing. Accordingly, high technical skills are needed to design the tank. In 2004, the Ministry of Trade, Industry and Energy, KOGAS, and the three shipbuilders started developing a tank design technology, and succeeded in developing the KC-1 technology last year after 10 years of development.

The domestic LNG tank design technology will be first used in Samsung Heavy Industries' LNG carriers which will participate in the U.S. shale gas project called Sabine Pass from 2017. The technology to produce LNG tanks will be used in LNG carriers to be manufactured by KOGAS and the nation's top three shipbuilders, saving royalties to overseas companies. Also, the companies are expected to see profits from royalties by exporting the technology to overseas shipbuilders. BK

## KEEPING TOP

# Korea Keeps Top Spot in Shipbuilding Orders for 5 Months

Despite the slump in orders, South Korean shipbuilders have ranked first in the world for five consecutive months.

According to the data compiled by Clarkson Research Services, a leading

U.K.-based provider of data and market intelligence for the global shipbuilding and shipping industries, new shipbuilding orders around the globe in the first half of this year amounted to 13.28 mil-

lion compensated gross tons (CGTs). The figure is about 49.2 percent from 26.99 million CGTs a year ago. In the past year, the global shipbuilding industry saw new orders halve.

During the cited period, South Korean shipyards clinched new orders totaling 5.92 CGTs. The figure is about the 96.1 percent level of 6.16 million CGTs tallied a year earlier. Even though the world's ship orders commissioned shrank



to a half, Korea's shipbuilding industry took in almost the same level as last year's.

However, the Chinese shipbuilding industry became the biggest victim of the industry downturn.

In the first half of the year, Chinese shipbuilders won 2.56 million CGTs, a fifth of the 11.86 million CGTs from the same period a year ago.

It was largely due to an abrupt fall in orders for bulk carriers, China's major product. In fact, new bulk carrier orders in the global market in the first half of this year amounted to 55 units or 930,000 CGTs, which is a twelfth of 585 units or 11.62 million CGTs a year ago.

The first-half order booking volume for Japanese shipbuilders also fell by more than a half to 2.68 million CGTs from 6.04 million CGTs in the first half of 2014. Still, they managed to move up to second spot by overtaking Chinese competitors

with a margin of 120,000 CGTs. It is the first time in 10 years for Japan to overtake China in half-year new orders, since Japanese and Chinese shipbuilders won 7.45 million and 4.89 million CGTs, respectively, in the first half of 2005.

Despite the slump in orders, Korean shipbuilders have secured the largest amount of new orders by month to retain the top spot in the world for five months in a row. However, some industry watchers say that it is meaningless to determine the ranking when global demand for shipbuilding has dropped by half.

According to Clarkson Research Services, the total order volume around the world in June alone amounted to 48 units, or 2.09 million CGTs. South Korean shipbuilders won the largest amount of new orders by CGT in June with 880,000 CGTs, followed by Chinese shipbuilders with 450,000 CGTs, and Japanese ship-

builders with 16,000 CGTs.

Accordingly, South Korea has maintained the leading position for five months since Feb. The nation had topped the list in terms of the number of awarded orders by month from Oct. to Dec. last year, but yielded its top position to Japan in Jan. once.

However, China still maintains its top place in terms of order backlog. As of the end of June or early July this year, new shipbuilding orders in the global market decreased to 108.99 million CGTs, a 720,000 CGT decrease from the previous month. China retains its top position in terms of order backlog totaling 40.96 million CGTs, followed by South Korea with 32.8 million CGTs, and Japan with 19.69 million CGTs, according to the data.

South Korea saw a drop by 1.59 million CGTs from 34.39 million CGTs at the end of Dec. 2014 in terms of order backlog. However, China saw the decrease by 6.37 million CGTs to 40.96 million CGTs from 47.33 million CGTs at the end of last year.

An official from the shipbuilding industry said, "Korea could maintain the top position only because there were new shipbuilding orders for large container carriers this year, in which Korea has competitiveness in technology. However, the Korean shipbuilding industry will not be able to look ahead to a bright future if new orders drop sharply like this." BK

## HARDTIMES

# Future Looking Dim for Korean Shipbuilding Sector

**D**aewoo Shipbuilding & Marine Engineering President Jung Sung-rip said late last month that the situation in the domestic shipbuilding industry are unlikely to get better soon. "The rapid growth of the Chinese economy led to an increase in international cargo volume and a heyday of 20 years in the industry

but China is losing steam these days," he remarked, adding, "The shipbuilding industry, which is a labor-intensive one, tends to lose its competitiveness as national income increases, which means that the ball will be in the court of China someday."

Nowadays, Korean shipbuilders are going through hard times. This is quite

contrary to several years ago, when they fared pretty well in spite of the global economic recession. Hyundai Heavy Industries' annual operating profits exceeded 4 trillion won (US\$3.5 billion) in 2010 and 2011, but the company recorded more than 3.2 trillion won (US\$2.8 billion) in operating losses last year to face layoffs and reorganization. This year, Daewoo Shipbuilding & Marine Engineering's losses are forecast to have reached at least 2 trillion won (US\$1.7 billion) in the second quarter alone, and a number of its subsidiaries are predicted to be put on the market.



In the 2000s, Korean shipbuilders were the major beneficiaries of the increasing cargo volume. According to the Korea Offshore & Shipbuilding Association, their total new building amount jumped from 6.05 million CGT to 11.11 million CGT between 2000 and 2006, and then rose to 12 million CGT and 13.56 million CGT in 2008 and 2011, respectively. Last year, however, it dropped to 10.3 million CGT.

The companies have concentrated on offshore plants since 2010 in order to tackle the decrease in the number of merchant ship orders caused by the global economic crisis of 2008. However, their lack of experience and excessive competition resulted in earnings shocks in 2014 and 2015, and low international oil prices are compounding the matter as of late.

Besides, Chinese shipbuilders are narrowing the technology gap at a rapid

pace, while Japanese shipbuilders are benefiting from the weak yen. Although the top three Korean shipbuilders are successfully keeping them at bay based on their technological competitive edge, smaller Korean companies that mainly supply bulk carriers and oil tankers are on the brink of bankruptcy. STX Offshore & Shipbuilding, Sungdong Shipbuilding & Marine Engineering, SPP Shipbuilding, and many more have failed to repay their debts and are now under the control of banks.

Experts point out that the solution lies in R&D for eco-friendly and high-efficiency vessels. "Smaller companies may be well advised to share their R&D resources and capabilities so as to improve their cost competitiveness while cooperating with the industry leaders in order to supply high-quality components in response to the transfer of know-how," one of them explained. BK

## SOMETIMES COOPERATION

# Major Korea Shipbuilders Working Hard to Beat Recession



Samsung Heavy Industries, Hyundai Heavy Industries, and Daewoo Shipbuilding & Marine Engineering are striving for cost reduction and business optimization based on new technology while competing for offshore plants in the global market.

On July 7, Samsung Heavy Industries received a 337 billion won (US\$297 million) order for a semi-submersible floating production system (semi-FPS) from an American shipowner. It also won offshore plant construction contracts worth 6.4 trillion won (US\$5.6 billion) in total

back-to-back on June 30 and July 1. It has already achieved 60 percent of its annual goal for this year.

In the meantime, Hyundai Heavy Industries and Samsung Heavy Industries are currently participating in a tender for Royal Dutch Shell's Bonga Project in Nigeria, which is estimated to cost a total of US\$4 billion. Likewise, Daewoo Shipbuilding & Marine Engineering and Samsung Heavy Industries are in Chevron's project in Thailand, and all the three Korean companies are in ENI's Mozambique Area 4 Project.

Hyundai Heavy Industries recently developed a green LNG carrier with GE, which is characterized by the use of a gas turbine engine. This vessel satisfies IMO level 3 environmental regulations without an exhaust gas treatment system, and thus can save on equipment and operating costs. Daewoo Shipbuilding & Marine Engineering recently came up with a ship demand prediction system utilizing big data, and is planning to apply big data to the repair and maintenance of ships in service. BK

## SPREADING STEEL

### POSCO, Hyundai Steel Expand Overseas Targeting Emerging Markets

by Cho Jin-young



Korea's top two steel companies, POSCO and Hyundai Steel, are accelerating the overseas market invasion. In order to do so, the two companies are rearranging the networks, including the expansion of overseas subsidiaries. In particular, they are targeting emerging countries in Southeast Asia and Latin America.

According to industry sources on July 2, Hyundai Steel, which has started operation as an integrated company with Hyundai Hysco on July 1, is now pushing ahead with an "Emerging Countries Target Project" by using the global networks of Hyundai Hysco.

The biggest achievement of Hyundai Steel latest merger with Hyundai Hysco is Hysco's overseas steel service centers (SSCs) after the company has produced even cold-rolled steel products with the merger in the cold-rolled steel sector with

Hyundai Hysco in 2013. Synergy effects from the latest merger will be different depending on how Hyundai Steel will make use of the SSCs, which are the overseas sales outlet of automotive steel. The centers are the core business of Hysco last year to such an extent that it accounted for 67.4 percent of the total sales last year. Currently, there are 11 SSCs in nine countries including the U.S., China, and India. Hyundai Steel is planning to expand the centers to 13 by next year.

Hyundai Steel is especially targeting the Mexican and Indian markets among global markets. Mexico has emerged as a strategic base for global automakers due to its low oil prices and interest rates. The company will open an SSC in the region in the first half of next year to aim at all Latin American markets, and utilize it as its hub in North America. India is also another major strategic region of the company, as the steel demand in the country is expected to rapidly rise due to its government's aggressive economic stimulus package.

With POSCO upgrading its subsidiaries in strategic countries to its representative subsidiaries, the company is scrambling to restructure overseas sales networks. POSCO has provided customer relationship services based on its processing subsidiaries where global automakers are headquartered. Until now, the company has established 29 processing firms in 14 countries, including China and Japan.

Since March, its overseas subsidiaries in 11 countries, such as China, Japan, Australia, Myanmar, and Russia has sequentially become its representative subsidiaries. POSCO has also established production subsidiaries in Indonesia and Vietnam. These firms will play a role as an information hub for POSCO group in the future.

The group is also positively expanding its overseas technical service centers (TSCs). The TSCs are a global infrastructure network that provides services that customers want when they need. Each is a kind of small solution center and provide technical support, quality certifications, and other services. Currently, the group is running 23 TSCs in China, India, Southeast Asia, and the Americas.

POSCO will open an additional five centers in other countries by this year, increasing the number to 31 by next year. The move came after the steel demand in the global market is expected to be greater than the domestic market in the future. In fact, the overseas steel sales of the group in the first quarter of this year surpassed the domestic sales for the first time.

Meanwhile, POSCO's cumulative steel production exceeded 800 million tons last month, 43 years after it established its first thick plate factory in Pohang and started business in July 1972. Eight tons of steel products are enough to build 800 million units of mid-sized cars and 20,000 units of 300,000 DWT very large crude carriers. 

## STEEL MERGER

### Hyundai Steel Starts Fresh as US\$31 Trillion Won Steel Company



A Hyundai Steel plant in Dangjin county, Chungnam Province.

Hyundai Steel, which has merged with Hyundai Hysco, starts with a clean slate on July 1.

The company said on June 30, "We have pushed ahead with the merger with Hyundai Hysco from May, and have now completed the process. The new integrated company will be launched on July 1."

As the merger was completed as scheduled, Hyundai Steel has become the world's ninth largest steel company with assets and sales amounting to 31 trillion won (US\$27.78 billion) and 20 trillion won (US\$17.91 billion), respectively. The

new company will not hold any celebration on the day, but will have a proclamation ceremony for its vision in the middle of July.

Hyundai Steel expects to maximize the synergy of the merger by unifying its existing business to produce hot rolled steel plates from blast furnaces and Hyundai Hysco's business to manufacture, assemble and sell steel sheets. The company is planning to actively expand its business areas to lightweight vehicles other than the existing major products including hot and cold rolled steel plates. 



Sivextro, a drug to treat acute bacterial infections, has just been approved by the FDA after 11 months.

## NO SUPPORT FROM GOVERNMENT

# Korean Pharmaceutical Firms Strive to Expand New Drug Tech Exports

by Jung Min-hee

As domestic pharmaceutical companies have started gaining recognition of their new drug development capabilities overseas, they are expanding technology exports. As products newly-released abroad through technology exports are receiving a positive consumer response not only in emerging countries, including Latin American and Southeast Asia, but also in advanced countries, including the U.S., the companies are expecting to receive royalties in earnest.

According to industry sources on July 5, new Korean medicines, including Dong-A ST's Sivextro and Boryung Pharmaceutical Company's Kanarb, are selling well in newly-entered global markets.

The sales of Sivextro, an antibiotic targeting super-bacteria developed by Dong-A ST and technically exported to multinational pharmaceutical companies, are continuously increasing since it hit the U.S. market in June last year. The amount of prescription of the product in the U.S. has increased from US\$880,000 (988.68 million won) in the third quarter last year right after the release to US\$1.84 million (2.07 billion won) in the first quarter this year. The figure is steadily reaching a record high, recording US\$768,000 (862.85 million won) in May alone.

Compared with its competitors, Sivextro is very effective and

easy to take. Also, huge multinational pharmaceutical companies like MSD and Bayer have sales rights, so the sales of the product are expected to continuously increase. In March, the company was licensed to sell the product in Europe, too. Also, the product is currently undergoing phase three clinical trials in China.

LG Life Sciences' diabetes treatment Zemiglo, which will be selling in 120 countries through multinational pharmaceutical companies Sanofi and Stendhal International, is also expected to receive royalties in earnest from next year.

Boryung Pharmaceutical's hypertension pill Kanarb has been approved for sale in Mexico in Sept. and Ecuador in Dec. last year, in Honduras in April and Costa Rica in June this year. Boryung has signed contracts worth nearly US\$320 million (359.52 billion won) with 30 countries around the world to export Kanarb technology.

Also, other domestic pharmaceutical companies that signed large export contracts with international pharmaceutical companies including Hanmi Pharmaceutical (novel targeted agents against cancer and autoimmune disorders), SK Chemical (next-generation pneumonia vaccine), Daewoong Pharmaceuticals (new botulinum toxin formula Nabota) and JW Holdings (three-chamber nutrient infusion), are expected to make profits from royalties in the global markets.

In the meantime, pharmaceutical companies are complaining that the government's policy for lower drug prices is making it difficult for them to recover their significant development costs.

One of their examples is Boryung Pharmaceutical's Kanarb, the first hypertension drug developed by a Korean company. Although it is available at 670 won (US\$0.59) per 60 mg, the prices of similar drugs were between 700 and 900 won four years ago, when the price of Kanarb was determined. The company went through six rounds of negotiations with the National Health Insurance Corporation during the price determination, but the price was set at a level lower than those of 10-year-old drugs.

A lower price in Korea inevitably results in a lower price abroad, because the price of an exported drug is based on the domestic price. Boryung Pharmaceutical signed a US\$45.8 million agreement with a Turkish company for the exclusive supply of Kanarb in late 2011, but the agreement failed to end in a contract due to matters related to its price.

A new drug price is determined based on, for example, the weighted average price of the medicine expected to be replaced with a new one. But the new drug price reflects 90 percent of the weighted average price, unless it is completely new. The prices of medicine developed abroad and imported by Korea are minimized by the current drug price determination scheme, whereas relatively generous prices have been guaranteed for generic drugs, so that Korean companies can have an opportunity. As a result, the average new drug price in Korea is now 44.4 percent of the OECD average, and the prices of 74 percent of new drugs are lower in Korea than in any other OECD member country. BK



The planned duty free shop complex in Yongsan could be the largest in the world. (Photo via Hotel Shilla)

## GOLDENTICKET

# New Licenses Given to Run Duty-free Shops in Downtown Seoul

by Marie Kim

A much-hyped bidding race for licenses to run new duty-free stores in Korea ended on July 10. The license for a shop in Jeju City went to the Jeju Tourism Organization. The Korea Customs Service (KCS) awarded another license to a consortium of Hyundai Development Company (HDC) and Shilla Duty Free. A third license was awarded to Hanwha Galleria. And the fourth license was awarded to SM Duty Free, a consortium of medium-sized companies led by Hana Tour.

Competition was fierce during the bidding process, as these new duty-free stores in downtown Seoul are expected to rake in approximately 1 trillion won (US\$868 million) annually due to big demand from Chinese tourists.

Experts say the heated race for the bid also reflects sluggish domestic consumption. Inflation-adjusted private consumption increased only 1.8 percent last year, marking the lowest growth since 2009. The local major retailers took the brunt of

the prolonged economic slowdown and sluggish domestic consumption, which was also hit by a boom in online shopping and direct buying from online shopping malls hosted overseas. Chinese tourists' seemingly insatiable appetite for shopping has been a rare bright spot in a local retail sector grappling with sagging sales.

### Big Business

The duty-free store business is booming in Korea. In 2014, the annual sales of the duty-free market in Korea were ranked the highest in the world, recording 10 trillion won (US\$8.7 billion), which accounts for 13 percent of the revenues from all duty-free shops on the planet. The same year, the sales of all duty-free stores in Korea increased 22 percent from the previous year, recording 10 trillion won, up from 8.3 trillion won (US\$7.2 billion). The average annual growth from the last three years is 14.7 percent.

Overall, duty-free shops in downtown

Seoul prove to be more profitable than shops in other cities or at transportation hubs like airports and seaports. According to the Ministry of Strategy and Finance, in 2014 the turnover of downtown duty-free stores in Seoul recorded about 5.4 trillion won (US\$4.7 billion), marking a 32.2 percent increase from the previous year. This is even higher than the previous year's 21.6 percent growth. In contrast, airport duty-free stores recorded a mere 5.9 percent growth, which translates into 2.5 trillion won.

For this reason licenses to operate duty-free stores in downtown Seoul are widely seen as a game-changer for those who are struggling to secure new profit engines.

### Monopoly Duty Problem

Despite anti-monopolistic efforts, the industry has been dominated by two market leaders, Lotte Duty Free and Shilla Duty Free, as their sales account for 80 percent of the all sales of 43 local duty-free shops around the country.

In 2013, in a bid to prevent monopolies, KCS revised customs regulations, which obliged the Korea Customs Service (KCS) to redistribute the licenses of existing duty-free stores through open competition every five years. Before 2013, the Korea Customs Service (KCS) simply renewed the licenses of existing operators' duty-free shops after a cursory checkup. Accordingly, the bids for licenses to run duty-free stores has been open to large corporations, small and medium enterprises (SMEs), and foreign bidders since 2013. The duration of the licenses was also shortened from 10 years to five.

### Small Duty Struggle

Despite participation since 2013, SME-owned duty-free stores in Ulsan, Changwon, Daegu, Daejeon, Suwon, Incheon, and Cheongju have been relatively poor compared to those run by major domestic retailers. Although the overall market size of the duty-free business in Korea has been growing, the share of SME-run duty-free stores has been

relatively insignificant. According to data compiled by the KCS last year, the sales of SME-run duty-free stores reached a mere 4.8 percent (amounting to 401 billion won) of the total sales of 8.3077 trillion won (US\$7.2141 billion) of all 43 duty-free stores in Korea.

Among several factors, Industry watchers pointed out “accessibility to Chinese tourists” as one of the most prominent ones. Namely, as Chinese tourists concentrate in cities like Seoul, Busan, and Jeju City, SME-owned duty-free shops missed the fruits of extensive growth in the industry.

High initial investment costs, high lease rates and operating costs represent another hurdle for SME participation. In the 2014 bidding race, of the four licenses for duty-free stores at Incheon Airport reserved for four SMEs, one went to Charmzone Cosmetics. Charmzone Cosmetics struggled to pay the requisite initial six month reservation fee. In the end, Charmzone’s bid ended in failure and the company lost its 10 billion won (US\$8.7 million) deposit.

Sourcing ability and handling inventory is another challenge for SMEs. The government announced that it expects an additional 300 billion won (US\$260 million) in new investments and the creation of 4,600 new jobs from the opening of new duty-free stores in downtown Seoul.

A high lease rate is another barrier for

successful entry by SMEs. For instance, according to the 2013 record, the annual rent for a duty-free shop at Incheon airport, recorded 615 billion won (US\$534 million) at a minimum.

HDC Shilla and Hanwha Galleria were the winners of the contest. Also, Hana Tour won the golden ticket competing with the seven SMEs that had competed for the slot reserved for them. The KCS evaluated the businesses on factors like management abilities, tourism infrastructure, support for smaller companies, contribution to society, and a very crucial five minute presentation a day prior to the announcement. “Through accurate due diligence and fair evaluations, we picked businesses that can invigorate the duty-free industry,” said Lee Don-hyun, vice commissioner of the KCS.

Shilla duty-free paired up with HDC, another conglomerate, to develop what they call the world’s biggest downtown duty-free complex in Yongsan, the railway hub nestled in between key tourist spots. HDC Shilla plans to open its duty-free shop at the I’Park Mall with a floor space of 65,000 square meters (121,000 square feet). It has parking capacity for 400 large tour buses. I’Park Mall is adjacent to a KTX express train terminal that links Seoul with the rest of the country.

The company also has plans to boost the economy of Yongsan district, collaborating with the electronics retail cluster



Hana Tour plans to turn its headquarters in Insa-dong into a giant duty-free outlet. (Photo via Hana Tour)

there to redevelop it as a major destination for foreign tourists.

The second winner, Hanwha Galleria, will open a 9,900 square meter luxury duty-free store in the 63 Building on Yeouido, one of Seoul’s landmark skyscrapers with an unobstructed view of Seoul and the Han River. The building is on a highway linking Seoul and Incheon International Airport. It is also close to five-star hotels in Yeouido, the Han River park, IFC Mall, and both Incheon and Gimpo airports, the main gateways to Korea. “This will be the best location in terms of accessibility,” a Galleria official said.

Hana Tour, the nation’s biggest travel agency, unveiled its plans to turn its headquarters in Insa-dong into a giant duty-free outlet. The building is surrounded by major tourist attractions in Seoul like Gyeongbokgung Palace.

“We have time-tested skills and know-how about products that tourists want to buy and how to attract their attention,” a Hana Tour official said. “We will make full use of our experience to make it a successful duty-free outlet.”

The licenses at stake will be valid for five years under a revised customs regulation that halved the contract period. The winning bidders are required to open their respective stores within six months after winning the bid. 



Hanwha plans to open a 9,900 square meter luxury duty-free store at 63 Square in Yeouido, at the foot of one of Seoul’s landmark skyscrapers. (Photo via Hanwha Galleria)



## ANGEL INVESTORS

### Venture Financing in Korea to be Led by Private Sector

—  
by Jung Suk-yee

The Financial Services Commission released a plan to facilitate the financing of small and venture firms on July 19. The idea is to boost their self-sustainability by means of private sector-led investment.

The Korean government has invested a large amount of public funds for a couple of years in order to enrich the domestic startup ecosystem. As a result, the size of investment in venture firms and the number of startups have greatly increased. However, some experts have pointed out that there is still a long way to go when it comes to the self-sufficiency of the ecosystem and the revitalization of venture capital in more diverse industrial fields.

Venture investors are in favor of the plan, but say that the government needs to focus more on the qualitative growth of investment funds for those firms. According to the commission, the Small and Medium Enterprise Establishment Investment Association and the Korea Venture Fund raised 80 million won (US\$69,049) for them in 2012, but the amount skyrocketed to 2.5 trillion won (US\$2.16 billion) last year. The amount of new venture investment increased from 1.2 trillion won (US\$1.0 billion) to 1.6 trillion won (US\$1.4 billion) during the same period, and the government's new investment in the sector has amounted to 1.3 trillion won (US\$1.1 billion) since 2013. This has resulted in an increase in the number of newly-established venture firms from 74,162 to 84,697 between 2012 and 2014.

Nevertheless, the domestic venture investment ecosystem still relies heavily on government funds. The government accounted for 27 percent of financing to that end in 2007, and the percentage rose to 40.3 percent last year, but investment by private-sector entities continued to decrease during the period.

"Venture capital firms are concentrating on profitability, and less-promising firms are failing to benefit from their funds," said an industry insider, adding, "This matter should be addressed for the government to achieve its goal." According

to the Korea Venture Capital Association, Korean venture capital firms recorded an average rate of return of 24.4 percent in the ICT manufacturing sector last year, easily eclipsed by those pertaining to games (281.9 percent) and ICT services (123.6 percent).

It is also pointed out that the government has failed to raise the rate of survival of investees due to its concentration on the supply of funds. As of 2013, the ratio of startups that remained in business for three years reached 57.6 percent in the United States, 55.4 percent in Israel, and just 41.0 percent in Korea. BK



## MAKER MOVEMENT

### 'Hardware Startups are Key to Creative Economy'

—  
by Jung Suk-yee

The Korea Creative Economy Research Network held an open forum on July 21 and proposed the promotion of the growth of hardware startups based on manufacturing technology for more venture success stories. Lee Min-hwa, head of the organization, suggested six key strategies to that end: public education for the maker movement; establishment of ecosystems for startup manufacturers; startup promotion utilizing hardware patents; innovation clusters connecting Yongsan, Guro, Hongdae, Sungsu, and Yeoksam; a culture of openness led by small firms; and convergence business foundation based on deregulation.

The term "Maker Movement" was coined by Dale Dougherty, a co-founder of O'Reilly Media, which is one of the largest IT publishers in the United States. It can be defined as a social trend in which people make what they need on their own by means of less expensive machine tools, 3D printers, and sharing manufacturing techniques.

"The U.S. government is seeing the maker movement as an opportunity for startup-based job creation and the promotion of entrepreneurship, and the Chinese government is also focusing on the growth of hardware startups for a shift from 'Made in China' toward 'Created in China,'" said Kang Heung-seo, director at the Korea Foundation for the Advancement of Science

and Creativity. He added, "We need to follow the trend so that young manufacturers can make innovative attempts with a second chance ensured."

Kim Sung-sup, who is in charge of venture business policy at the Small & Medium Business Administration (SMBA), mentioned that spaces for making based on crowd funding are the key to the promotion of hardware startups. He also said that Actner Lab, which is the hardware accelerator housed in the SMBA's TIPS Town opened in Seoul last week, will be a reliable investment platform for hardware startups. "The SMBA will continue working hard so that a platform combining the manufacturing infrastructure available at the Creative Economy Innovation Centers with investment functions can fulfill its purposes," he continued. BK



Beijing's central district. (Photo via World Property Journal).

## VENTURE TO CHINA

### Korean, Chinese Venture Investors Gathered in Beijing

by Cho Jin-young

The Small & Medium Business Administration held the Korea-China Venture Investment Exchange in Beijing from July 21 to 22 with venture capital firms, venture firms and the Korea Venture Investment Corporation so as to form cooperation networks with the Chinese venture investment industry. The conference was a follow-up of the 13th Korean and Chinese Economic Ministers' Meeting that took place in Beijing on January 29 this year. Chinese government officials joined the conference with leading Chinese enterprises, venture capital firms, financial institutions, and venture funds.

In the conference, the participants discussed mutual exchange between Korean and Chinese venture capital firms, the attraction of Chinese capital into Korea, the business of Korean venture capital firms in China, etc. IR sessions for Korean venture firms' penetration of the Chinese market are scheduled to take place as well, with business meetings with major Chinese corporations.

An MOU for fund raising purposes was signed there, too. The MOU will help small Korean firms do business in China by means of funds jointly raised by Fortune Link and the Korean government's Fund of Funds. Fortune Link is the 12th-largest

venture capital firm in China, and it is currently running 30 or so funds worth approximately 2 trillion won (US\$1.7 billion) in total. BK



## REWARDING INNOVATION

### Qualcomm Invests US\$90 Million in Korean Start-ups

by Marie Kim

Qualcomm is investing US\$90 million for start-ups in South Korea. On June 30, during an open luncheon meeting at the Seoul Grand Hyatt Hotel, Paul Jacobs, Qualcomm's Chairman of the board, said, "Given the highly competitive nature of the industry, Qualcomm is on the lookout for new ideas providing support for start-ups." The luncheon meeting was organized by the American Chamber of Commerce in Korea (AMCHAM).

Recently, Qualcomm has also invested 3.15 billion won (US\$2.82 million) via a specialized venture capital subsidiary of Qualcomm into Mango, a local venture that provides recommendations for local restaurants. Being a son of Qualcomm founder Irwin Jacobs, Paul Jacobs has been in charge of the US-Korea Business Council since 2012.

He is on two-day business trip to Korea. During the luncheon, president Jacobs spoke with Amy Jackson, head of the AMCHAM, on the theme of "innovation, cooperation and prosperity." In particular, they discussed the history of Qualcomm's innovations and the IT industry in Korea. Jacobs added, "In order to foster an innovation-friendly business environment, the roles of government and businesses are critical." Jacobs also expressed that he highly valued the current Korean government policy related to launching creative economy centers across the country.

Meanwhile, Qualcomm, SK, and the municipal government of Seoul signed a memorandum of understanding to spread the use of "keeper phones." Designed to counter the rising numbers of missing seniors with dementia, the phone enables family and guardians to know the real-time location of seniors with dementia. The phone also sends alert messages to guardians when seniors stray away from safe areas. BK



## WORLD CLASS 300

# Korea's 30 Global 'Hidden Champion' Candidates Selected

by Oh Seung-mock

The Ministry of Trade, Industry & Energy (MOTIE) and the Small and Medium Business Administration (SMBA) said on June 30 that they have jointly selected 30 small and medium-sized enterprises (SMEs) eligible for support in accordance with the "2015 World Class 300 & Global Businesses Nurturing Project."

Following the "Korean Hidden Champion Nurturing Policy" announced last Oct., the "World Class 300" project and the "Global Businesses Nurturing Project," which had been separately administered by the MOTIE and the SMBA respectively, have been unified. The two government agencies made the first co-selection of high potential businesses to be supported this year.

The selected businesses are: EAGON Industrial Co., Kyung-In Synthetic Corporation, Nepes, Daeyang Electric Co., DK-loc, MegaGen Implant Co., Vatech, Boryung Pharmaceutical Company, Meta Biomed, Segos, SSangYong Materials, Cell Biotech, NUC, Youngwoo Co., Ltd., Autogen, UNO & COMPANY, Wonic QnC, United, Yushin Precision Industrial, EO Techniques, NK, Zinitix, KC Corporation, KTE, TeleChips, Paru, Hanla IMS, Haesung Optics, and Fine Inc.

The group of the selected companies this year consists of 11 mid-sized businesses and 19 SMEs. They have achieved an annual average of US\$106.4 billion in sales and an average of US\$59 million in exports with its proportion of average 56.4 percent of the total sales. Their average intensity of research and development was 4.17 percent. Among them, 14 companies (47 percent) are located in the Seoul metropolitan area such as Seoul City, Gyunggi Province and Inchoen City, while 16 companies (53 percent) are located in non-metropolitan area. None of the businesses were from Gangwon Province or Jeju Island.

The 30 companies will be supported for 10 years, starting

this year, to grow to world class hidden champions.

Cho Jong-rae, director general of the High Potential Enterprises Bureau at the SMBA, said that he will maximize the synergy effects by preventing duplicated support and enhancing the effectiveness of the project once the companies have been selected first this year. BK



## ITS RAINING FUNDING

# Crowd-funding Act Passed by National Assembly

by Jung Suk-yee

The amendment of the Capital Market and Financial Investment Business Act, known as the Crowd-funding Act, was passed by a plenary session of the National assembly on July 6, along with 60 other bills, including an amendment of the Financial Institution Governance Structure Law and one that allows private equity funds to be set up on a post-registration basis instead of on a prior-approval basis.

The Crowd-funding Act, advocated by both the government and the ruling party as a part of their economic recovery plans, was passed after almost two years.

The passage of the amended Crowd-funding Act is expected to be a boon for venture firms and startups, as online investment intermediaries are allowed to raise funds via online funding portals and the general public, and the firms can have easier access to each other in the investment sphere.

In the meantime, the amendment of the Financial Institution Governance Structure Law is to expand the examination of the qualification of major shareholders to cover every type of financial firm, including insurers and non-banking companies, as well as commercial and savings banks.

The amendment of the Fair Transactions in Subcontracting Act passed at this time stipulates that not only small and medium enterprises but also larger companies with annual sales of less than 300 billion won (US\$264 million) can be protected by the law, as long as they are not included in the group of companies subject to the ban on cross-shareholding and are in business relations with those in the group on a consignment basis. BK



Workers of the ISOFAR 2015 Goesan International Organic Expo + Industry Fair Organizing Committee talk with the potential participants in the event.

**ISOFAR 2015**

## ISOFAR 2015 Goesan Expo Starts Attracting Buyers at Home, Abroad

—  
by Jung Min-hee

The ISOFAR 2015 Goesan International Organic Expo + Industry Fair Organizing Committee (Secretary General Huh Kyeong-jae) is recruiting buyers at home and abroad that want to be part of the organic industry exhibition halls during the expo from July 20 to Sept. 17.

In order to promote the organic industry and tap into overseas markets, the expo organization committee will run organic industry exhibition halls in which 250 companies from 25 countries will participate. Buyers will be able to have consultations on exports and to exchange information with participating companies.

Those who want to join the expo, such as distribution companies, institutions, and organizations related to the organic industry, can submit application forms online by clicking the “buyer participation” menu on the official website of the ISOFAR 2015 Goesan International Organic Expo ([www.2015organic-expo.kr](http://www.2015organic-expo.kr)), or on the “buyer participation application” menu on the official website of the Chungcheongbuk-do provincial government ([www.cb21.net](http://www.cb21.net)).

After completing the application for participation, one should bring a buyer invitation card, which is distributed by the organi-

zation committee, and a business card to confirm identity at a buyer registration booth at the main gate of the venue. Buyers will be given a pass and free admission and will be able to take part in special buyer activities.

Huh Kyeong-jae, secretary general of the expo organization committee, said, “In a bid to attract more competent buyers, we will distribute 15,000 invitation cards to firms, institutions, and organizations at home and abroad, and attract more than 620 buyers. In particular, we are also planning to recruit foreign buyers through the International Federation of Organic Agriculture Movements Asia, which have well-established networks, AT Korea Agro-Fisheries & Food Trade Corporation, and the relevant government departments of North Chungcheong Province.”

Meanwhile, the ISOFAR 2015 Goesan International Organic Expo + Industry Fair will take place in the Organic Expo Farm in Goesan-gun, or Goesan County, for 24 days, from Sept. 18 to Oct. 11, 2015, with the theme of “Organic Life – Science Meets the Public.” The event will be co-hosted by 3 organizations: North Chungcheong Province, Goesan County, and the International Society of Organic Agriculture Research (ISOFAR). 



## 2015 HALAL EXPO

# High-level Halal Personnel to Meet for Heavy, Harmonious Discussions

by Marie Kim

According to the organizing committee of the 2015 Halal Expo Korea (Chairman, Chung Yong-chil, former U.A.E. ambassador), personnel of the Standards and Metrology Institute (SMIC), an affiliated organization of the Organization of Islamic Cooperation (OIC), authorities of Turkey's GIMDES, Malaysia's JAKIM, Indonesia's LPPOM-MUI, members of the Gulf Halal Center in the U.A.E., and halal certification organization personnel from 10 countries are expected to attend.

Based in Istanbul, the SMIC is an organization devoted to developing standards that are commonly used in 32 Islamic countries including Saudi Arabia, Turkey, Iran, the U.A.E., and Malaysia.

The affiliated research institute notified the standards for halal food in 2011, which are likely to become international, as the U.A.E. and the Philippines recently accepted them. The Vice Secretary who will lead the delegation to the event is Lotfi Ben Said. Originally from Tunisia, Said is known as an authority in the field of food quality management.

From Aug. 7 to 8, staff from the International Halal Certification will participate in the International Halal Certification Authorities Conference, either as presenters or discussants. The International Halal CB Conference consists of 5 sessions comprised of a briefing on "New Trends in the Global Halal Certification," a debate on "Strategies of Developing

Halal Certification in Korea," a presentation on "the Future of International Halal Standards," "Introduction to the Turkish GIMDES Certification," and a session for signing MOUs or MRAs among local and foreign participants. With the participation of academic and business personnel from home and abroad, the event is expected to be a lively venue for the exchange of ideas on the latest halal issues.

The International Halal Certification Authorities Conference is hosted by the Korea Food Research Institute and jointly organized by the Korea Institute of Halal industry and Korea Halal Cooperative Organization. The event is also sponsored by the Korea International Trade Association and the Korea Muslim Federation.

Overview of the 2015 Halal Expo	
Title	HALAL EXPO KOREA 2015
Date	Aug. 7 (Fri.) - 9 (Sun.), 2015
Venue	COEX Hall C, Seoul, South Korea
Organizer	Halal Expo Korea Organizing Committee
Management	Korea Food Research Institute, Korea Muslim Business Community, World Expo Co., Ltd.
Exhibition Profile	halal food and beverage, health food, raw material medicines, beauty & cosmetics, logistics, finance, Fashion and other daily products, etc.

### Contact

For more information, contact the HALAL EXPO KOREA Organizing Committee:  
 Address: MOI Building 3F, 13, Yangjae-Daero 145-Gil, Gangdong-Gu, Seoul, Korea, 134-830  
 Phone: +82 70 8824 1000  
 Fax: +82 2 790 1810  
 Email: expo@halalexpojkorea.co.kr  
 Website: www.halalexpo.co.kr

### Current Events

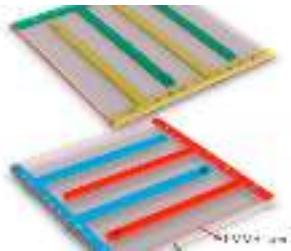
1. **Conference:** Present & Future of Halal Certification and Certification Policy of Korea
2. **Biz Matching:** Arrangement for face-to-face business meeting attended by overseas buyers, corporations, institutions and Commercial Attachés of OIC countries to Korea
3. **Job Counseling & Seminar:** Job counseling made by relevant companies from Middle East & ASEAN countries Seminar attended by job counseling companies, relevant organizations of Korean Government
4. **Training for Halal Certification:** Training for general staff and expert on Halal Certification

# SCIENCE

## STATIC IMAGES

### Tech to Maintain LCD Screens without Data Signals

by Cho Jin-young



Korean research team has successfully developed a tech to make a memory-type liquid crystal display (LCD) that can maintain a screen without sending data signals.

On July 23, Professor Kim Jae-hoon from Hanyang University and Professor Kwak Jin-seok from Yeungnam University announced that their research team succeeded in developing a memory-type LCD that can keep its screen going, even when data signals discontinue, using the phenomenon that the surface of liquid crystals slides easily. The research team said that it will be possible to first use the research findings in slowly-moving LCDs like those used in e-books, LED billboards, and e-signs for prices or menus. In that case, they said that the newly-developed tech could reduce power consumption by nearly 100 percent.

Professor Kwak noted, "I think that our study will be able to be used in the development of memory-type optical elements that can be utilized in optical communications, dynamic focal spot changing lens, cameras, scanners, printers, polarization sensors, and polarization elements, in addition to slowly-moving LCDs."

The research findings were first published online on June 23 by Scientific Reports, a scientific journal published by the Nature Publishing Group.

## ANDROID SKIN

### Making Electronic Skin Capable of Detecting Harmful Gases

by Cho Jin-young



Experimental artificial skin that can detect temperature and other changes to its environment.

A Korean research team has succeeded in developing a tech to make artificial electronic skin that can detect temperature, humidity, and smell.

On July 16, a research team at the Center for Advanced Soft Electronics successfully developed a technology to make electronic skin capable of detecting different kinds of harmful gases and organic solvents, which human skin cannot do.

The e-skin was made using the property of electrical capacity, an ability of objects to store electricity. After synthesizing a carbon nanotube fiber with high electrical conductivity and elasticity, the research team made a wearable piezoelectric element using the synthesized material. The element is flexible and stretchable like human skin, and it is tactile and olfactory, unlike existing tactile-oriented e-skin. The newly-developed e-skin is expected to be widely used to make wearable medical devices, sensory displays, and multi-functional robot skin.

"In the past, very complex nanomaterials and structures were used, and different materials were used for tactile and olfactory functions. So, output signals were inevitably mixed," explained Kim Do-hwan, professor of the Department of Organic Materials and Fiber Engineering

at Soongsil University. He added, "But the newly-developed e-skin has a very simple structure. So, I think that it will be possible to make flexible products at ultra-low cost."

The study was funded by Korea's Ministry of Science, ICT and Future Planning under the Global Frontier Project, and it is going to be featured as a cover article in the upcoming issue of *Advanced Materials*, a weekly scientific journal covering materials science.

## TRUTH IN LIGHT

### ETRI Advances Ultra-fast Optical Computer Age

by Cho Jin-young



The age has come to exchange data between computer chips using light. Korean scientists have succeeded in developing a single-chip optical transceiver based on general silicon semiconductors.

The Electronics and Telecommunications Research Institute (ETRI) announced on July 8 that it has developed a silicon chip that can be used to make a futuristic computer that exchanges data using light rather than electronic signal. The technology that builds "roads of light" in computers to communicate between or within chips using light is called "silicon photonics." It will bring innovative changes in future data computing and communications.

The single-chip optical transceiver developed by ETRI is its own platform technology that can add the function of optical inputs and outputs (I/Os) in silicon electronic circuits.

ETRI said that the technology sig-

nificantly increases integration with electronic integrated circuits and allows the practical transmission and reception of optical data between chips. The technology can be used in a wide range of industries, including high performance computing (HPC), central processing units (CPU), memory, 3D integrated circuits (3D IC), and optical components in the future.

The technology can increase existing electrical data speeds of 1 to 2 Gbps per line by tens of times. By realizing the speed of optical communications under a normal computer environment regardless of transmission distance, it can add 10 to 40 Gbps of speed per channel, fast enough to transmit a 4GB full HD movie in 0.8 seconds.

ETRI also demonstrated a prototype that realizes 20 Gbps low-power chip-level optical interconnects between silicon chips.

The research institute said that it is possible to mass produce a relatively low-priced wafer and rapidly improve the data I/O speeds and bandwidth if the technology is being used in future computer chips, including computer CPUs and memory, as a platform in the future. Accordingly, it will have a great influence on the commercialization of single electronic/optical integrated chips.

Also, a single high-performance chip with optical transceiver elements based on silicon will minimize size, lower the price, and decrease power consumption. Therefore, it is easy to commercialize the technology in optical communication parts, mobile devices, sensors, and display parts in the future, expecting a great ripple effect, said ETRI. 

## SUPERCOMPUTER FORUM

### Korea to Make Ultra-High-Performance Supercomputer

by Jung Min-hee



Employees at Lawrence Livermore National Laboratory work on a high-performance computer. (Photo via Lawrence Livermore National Laboratory)

An “Ultra-high-performance Computing Development Forum” was recently established, composed of industry experts and researchers in the field of supercomputers led by the Korea Advanced Institute of Science and Technology (KAIST), according to sources in the Ministry of Science, ICT and Future Planning (MSIP) and related academic circles on July 5.

The MSIP is also reportedly conducting a preliminary feasibility study related to the development of original technology of supercomputers as part of Super IT Korea 2020. The public and private sectors reached the conclusion that it is necessary to localize a supercomputer.

In the past, supercomputers were utilized throughout the fields of cutting-edge technology, including basic science that requires the fast and accurate calculation of a large number of figures. Or, they were used to process a large amount of information in a given time.

In recent years, supercomputers are being used in the design and simulation of cars, semiconductors, ships, and aircraft. They are also utilized in handling large-scale business problems like real-time stock analysis or management consulting.

Hyundai Motor reportedly succeeded in cutting the costs required to make pilot cars nearly in half through car crash simulations using a supercomputer. In addition, only 1.5 days is necessary for a supercomputer to simulate car crashes, although about a month is needed for a

large computer. As a result, industry analysts are saying that it is possible to reduce the time needed for car development from five to three years.

Amid an increase in the utilization of supercomputers, the Supercomputing Center of the Korea Institute of Science and Technology Information has introduced a new system every five years since 1988, and it is currently operating the fourth one. Private enterprises like Samsung SDS and Hyundai Motor, mobile carriers, and financial institutions are also using supercomputers, but most of them were exported from the U.S. or China.

Therefore, some in academic circles are skeptical of the MSIP and KAIST’s efforts to develop a local supercomputer. The skepticism is due to the fact that the gap between latecomer Korea and dominant players like the U.S., China, and Japan in supercomputer technology is too wide.

In response, an official at KAIST pointed out, “We can decrease the gap with major advanced countries in the development of original technology, since it is possible for new technology to cultivate new markets and its application to new areas.” The official explained that Samsung Electronics also entered the mobile phone market led by Motorola and Nokia in the early 1990s in spite of strong opposition, but Samsung is currently leading the global cell phone market together with Apple thanks to its tremendous efforts.

The associate at KAIST said, “Tianhe-2, the fastest supercomputer developed by China’s National University of Defense Technology, consumes as much power as that needed for operating two nuclear power plants,” adding, “As our nation is a latecomer, the odds will be in our favor if we start to approach the problem of power consumption first, for which we have a competitive advantage, and then focus on the development of a supercomputer capable of processing other applications, different from existing ones.” 

# CULTURE

## UNEXPECTED SALE

### Korea Grand Sale to Kick Off in August

by Cho Jin-young



During the trade and investment promotion meeting presided by President Park Geun-hye on July 9, the government announced to hold the annual "Korea Grand Sale" event, which usually takes place during winter, in Aug. this year. Also, it said that group tourists from China, Vietnam, and the Philippines will be exempted from their US\$15 (17,316 won) per person visa application fee until the end of Sept.

Meanwhile, participating companies will offer special sale events, such as buy-one-get-one-free deals, buy-two-get-one-free deals, and discounts of more than 50 percent, chances to receive a selection of attractive gifts, and early bird promotions that provide extra benefits to foreign visitors who apply for the event. Packages will be offered that bring together various industries including airlines, accommodations, food and beverages, and beauty, and combination products between culture and arts and shopping tours. The event's base center will coordinate large offline promotions such as foreign tourist welcome week, giveaway events, and cultural experience events.

The government will encourage participation from the governments of Seoul, Busan, and Jeju to encourage participation in the event. The government will promote the Korea Grand Sale at government exchange events and public organizations' international events, and hold K-pop and Korean Wave events for

foreign tourists, pushing national promotional campaigns to achieve good results.

The Korea Grand Sale is an event that not only offers good shopping opportunities to foreign visitors, but also enhances their travel experience in Korea by integrating shopping, the Korean Wave, and tourism. The event introduces a wide variety of great Korean products and offers diverse cultural experience programs and other benefits. The Korea Grand Sale will take place across Korea from Aug. 21 to Oct. 31, 2015. **BK**

## APPEARANCE IS EVERYTHING

### 40% of South Korean 20-somethings Have Had Cosmetic Surgery

by Oh Seung-mock



Before and after photos of an unidentified Korean "celebrity" showing the plastic surgery that she received.

Four out of 10 South Korean 20-somethings have had cosmetic surgery or treatments, a study of the UnivTomorrow Research Laboratory for the Twenties (UTRLT) showed.

A total of 459 South Korean people in their 20s who had ever considered any cosmetic surgery participated in the study, and 38.1 percent of them had had the experience of plastic surgery. Out of those, 46.9 percent had had was operations, while 44.0 percent of them had had treatments.

The most common reason for having had cosmetic surgery or treatments was "envying others' appearance," which accounted for 36.3 percent of those that had cosmetic surgery. Another 18.7 percent of those had cosmetic surgery or treatment

because of "others' suggestions."

Out of the women, 17.4 percent had plastic surgery because of a "discrimination against appearance," while 16.3 percent of men had plastic surgery because they "found dating difficult."

A full 60.0 percent of those who had cosmetic surgery or treatments said they were satisfied with the result. In more detail, 72.6 percent of those said the surgery or treatment improved their confidence; 51.4 percent of them said that it was helpful for their relationships; 48.6 percent said that it was helpful for their romantic relationships; and 44.6 percent of them said it was helpful in their job search.

Sixty-three percent of the participants considering cosmetic surgery or treatments said pointed out their "eyes" as their favorite choice for the surgery or treatment, while 61.3 percent selected "nose," and 38.0 percent chose "chin."

Ho Young-sung, senior researcher at the UTRLT who conducted the research, said that it was surprising that envy was the most common reason for cosmetic surgery than "inevitable reasons" such as a job search or relationships. The research shows that the country's current culture is very much emphasizing appearance, he said. **BK**

## PREMIUM EXPERIENCE

### Hotel Coffee in Seoul Most Expensive in World

by Jung Min-hee



Hotels.com said on June 29 that Seoul topped the price list of a cup of coffee in the hotel at 17,700 won (including

tax and service charge). The global hotel reservation site made a research on prices of burger sets, coffee, house wine and club sandwiches targeting 30 three-to-five star hotels in 28 countries.

Tokyo ranked second at 9,420 won in the coffee price, followed by Beijing (8,510 won), Hong Kong (8,190 won) and Taipei (7,580 won), showing the top five expensive cities are all in northeast Asia

Columbia's Bogota was cheapest at 1,740 won, followed by Rio de Janeiro (2,280 won), Mexico City (2,740 won) and Madrid (3,690 won).

House wine prices were highest in Singapore at 15,480 won, followed by Seoul (15,080 won).

Seoul ranked 14th in the prices of burger sets at 24,250 won. Geneva topped the list at 41,870 won, followed by Oslo (34,540 won), Hong Kong (33,870 won), Paris (32,820 won) and London (28,520 won).

Geneva also topped the list of club sandwiches at 33,890 won, followed by Paris (27,020 won), Stockholm (25,300 won), London (24,460 won), Hong Kong (23,370 won), Oslo (22,290 won) and Seoul (22,270 won).

Seoul ranked 6th for the combined prices of the four items, Geneva was highest at 96,050 won, followed by Paris (80,430 won), Hong Kong (79,020 won), Oslo (75,790 won), London (72,500 won). BK

## PYEONGCHANG ACCOMMODATIONS

### E-Land Completes French-themed Kensington Flora Hotel Renovation

by Jung Min-hee



A renovated room at the Kensington Flora Hotel in Pyeongchang, South Korea.

The E-Land Group announced on July 22 that it has completed part of the room renovations in its Pyeongchang Kensington Flora Hotel in Gangwon Province and is holding an Olympic-themed special exhibition at the hotel.

Kensington Flora Hotel, which has Korea's biggest French-themed garden, has renovated and opened 87 rooms with a French theme, and will complete the renovation of the remaining 306 rooms by the end of Sept.

In celebration of the room renovations of the hotel, it will hold a special exhibition that allows visitors to see the history of the Olympic Games from the London Olympics in 1908 to the Sochi Winter Olympics last year, and also a "Revenues D'ailleurs" exhibition.

In the special exhibition, there is a collection of 100 monumental Olympic items, such as two Argentine gold medals won at the Olympic Games in men's soccer, Michael Phelps' swim cap that he wore when he won eight gold medals at the Beijing Summer Olympics, and Usain Bolt's spike shoes at the Olympic trials in 2012.

In celebration of the 130 years of diplomatic relations between Paris and Seoul this year, the Revenues D'ailleurs exhibition, which is jointly arranged by French cartoonist Samir Dahmani and Artist Yoon Bo-kyung, will also be held from July 25 to Nov. 30.

Moreover, Kensington Flora Hotel will offer a "Celebrate All of Us" package, which provides a superior room and French breakfast buffet tickets, for the price of 159,000 won (US\$138), including tax and service fees, from Aug. 24 to Sept. 24. The first five customers that make reservations by the end of this month will be offered Kensington's signature scented Soohyang candle as a gift.

For further information, visit the official website or call +82-33-330-5000. BK

## THICK, JUICY DELICIOUSNESS

### Jjawang Selling Like Hotcakes Made of Ramen

by Marie Kim



Nongshim's newly-rolled-out instant "jajang" ramen, named Jjawang, chalked up 10 billion won (US\$8.7 million) of sales in May. Jajang is the name of a black savory bean sauce that is used in a popular Chinese Korean dish called "jajangmyeon." Since its launch on April 20, the product has been selling extremely well, marking a stark contrast against the steadily declining sales of general ramen. Jjawang has been receiving praise for its thick chewy noodles and rich flavor.

As Jjawang gets more popular in all channels ranging from giant retail outlets to convenience stores, the market share of Nongshim also increases. The market share of Nongshim in March was recorded at 59.1 percent, but in May the share reached 61.5 percent.

According to a spokesman for Nongshim, the company focused on recreating the traditional taste of jajangmyeon rather than creating a whole new taste.

Nongshim expects that Jjawang will join the 100 billion won club in the ramen market. Only four instant noodle products are members of that club - Shin Ramyun, Neoguri, Jjapaghetti, and Ansungtangmyun.

As Jjawang changed the landscape of the instant noodle market, second market leader Ottogi recently launched its own version of premium jajang ramen named "Jin Jjajang. Jin Jjajang has the taste of jajang ramen cooked over a fire. Made with pork and ginger, the ramen has a savory taste. It differentiates itself from Jjawang by using a liquid base for the soup rather than powder, to keep a deeper flavor. Jin Jjajang offers large-sized beef-favored flakes that add the taste.

The price of Jin Jjajang is 1,300 won (US\$1.13) per pack, 200 won cheaper than Jjawang, which is priced at 1,500 won (US\$1.30). BK



## RENT KOREA

# Providing 17 Years Services of Finding Accommodations for Foreigners

by Jung Suk-yee

Rent Corea is a subsidiary of the Taeyoung Real Estate Group specializing in the sales and rent of luxurious apartments and villas, targeting foreign employees, researchers, and businessmen living in Seoul.

The particular areas of the city that the company is focusing on are Pyeongchang-dong, Hannam-dong, Itaewon-dong and Yonhee-dong in the Gangbuk area, as well as the entire Gangnam area.

The company was established in 1998, and its headquarters is at Seongbuk-dong in Seoul. It also has nine branches spread throughout the city.

The company provides additional services for its foreign clients such as assistance for daily living with property management, hospitals, schools, telecommunications, insurance, banking, and legal services so that their clients can focus on their jobs.

The company says it is aimed at bridging foreign capitals and funds to the South Korean real estate market, as well as South Korean real estate businesses to the overseas market.

More information about the company is at its website, "rentcorea.com". The company can be contacted via its email address, hello@rentcorea.com. The phone number of the company's office in the Gangbuk area is: 02-730-0001; the office in the Gangnam area is contactable via 02-536-0001. 

### ***The main services of Rent Corea include***

- Regional residential environment information
- Settlement viewing and selection
- Business office or building search
- Entry residential and office building decisions
- Review of entire property-related documents
- Buying and selling real estate lease agreements
- Facility maintenance and repair
- Use expiration cost settlement services
- Domestic and international business assistance
- Terms and secondary health care facilities
- Foreign secondary school selection
- Legal Services